CHAPTER - 1

INTRODUCTION

1.1. General Background

1.1.1. Introduction to Tax

The primary objective of the government in every country is to increase the welfare of its citizen. In this endeavor, the government has to carry out development plans, handle day to day administration, maintain peace and security and launch other public welfare activities. In performing these activities government has to collect revenue and utilize that revenue for development purpose, administrative purpose as well as for other welfare activities. Public expenditure or public spending denotes all those expenses made by the government under the subject-heads like: defense, administrative, economic/development expenditure, social welfare expenditure etc. Through spending, government preserve and promote national identity, supply infrastructure for development, influence both the course of economic growth and the distribution of its benefits and provide social services to meet the basic needs of the general people.

For the spending in above mentioned expenditure heads government needs sources of incomes or in other term revenue. The government collects revenues from various sources such as tax, revenue from public enterprises, special assessment, fees, fines grants and assistance etc.

Taxes are compulsory payments to the government without direct return in benefit to the taxpayer. The government enforces the law related to the taxation and collects the revenues as per that law. Taxation is taken as the instrument to pay for the goods and services provided collectively by the government or state.

The government can collect revenue from taxable and non taxable sources. Tax is a key source for revenue generation and mobilization. Prof. Seligman opines that tax is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. (Bhattarai & Koirala, 2004)

To tax (from the Latin *taxo*; I estimate, which in turn is from *tangō*; I touch) is to impose a financial charge or other levy upon a **taxpayer** (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law. *(Source: http://en.wikipedia.org/wiki/Tax)*

Tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive the direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in satirical way about the taxation. In this respect, some say nothing is certain in this world but death and taxes, some say, Death and taxes are both certain but death is not annual; while others say, Death means stopping to pay tax. Here, it should be noted that all compulsory payments are not taxes. For example, fines and fees are also compulsory payments without having direct benefit to the payer but they are not taxes because the objective is not to collect revenue but to curb certain types of offences. Secondly, the taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. A tax is not a price paid by one for which he can claim for goods and services. The charge of price for goods and services by public authority is not a tax. Thirdly, the tax is paid to the government for running it. Fourthly, the amount is spent for common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society. Fifthly, a natural or an artificial person pays the tax. (Kandel, 2004)

It can be concluded that:

- a tax is a compulsory levy imposed by the government.
- those who pay tax do not get corresponding benefits from the government.
- tax amount is pent for common interest of the people.
- tax is collected from haves and spent for the interest of have-nots in the society.
- tax is levied on persons as per the prevailing laws. (Bhattarai & Koirala, 2004)

Government spends the revenue generated from taxes in useful and productive investments - infrastructures like road, hydropower, etc. Therefore, taxes have an important role in increasing the rate of capital formation. It will ultimately results in a high rate of economic growth. Taxation has dual impact on the society. First, it may be used to make the maximum volume of resource available to public sector. Secondly, it prevents the resource from being dissipated over speculative and unproductive investment as well as over lavish and luxurious consumption. Thus, taxes in developing countries serve as the severe means of raising revenue. Therefore, Taxation is a major fiscal policy instrument and important government policy tool for giving incentive to the proper growth of saving, investment and gross domestic product.

Revenues collected from taxation have been used by the government throughout history to carry out many functions. Some of these include expenditures on war, the enforcement of law and public order, protection of property, economic infrastructures, public works, social engineering, and the operation of government itself. Governments also use taxes to fund welfare and public services. These services can include education systems, health care systems, pensions for the elderly, unemployment benefits, and public transportation. Energy, water and waste management systems are also common public utilities. Colonial and modernizing states have also used cash taxes to draw or force reluctant subsistence producers into cash economies.

Governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as business, or to redistribute resources between individuals or classes in the population. Historically, the nobility were supported by taxes on the poor; modern social security systems are intended to support the poor, the disabled, or the retired by taxes on those who are still working. In addition, taxes are applied to influence the macroeconomic performance of the economy or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive.

Taxation has four main purposes or effects: Revenue, Redistribution, Repricing, and Representation.

The main purpose is revenue: taxes raise money to spend on roads, schools and hospitals, and on more indirect government functions like market regulation or legal systems. This is the most widely known function.

A second is redistribution. Normally, this means transferring wealth from the richer sections of society to poorer sections.

A third purpose of taxation is repricing. Taxes are levied to address externalities: tobacco is taxed, for example, to discourage smoking, and many people advocate policies such as implementing a carbon tax.

A fourth, consequential effect of taxation in its historical setting has been representation. The American revolutionary slogan "no taxation without representation" implied this: rulers tax citizens, and citizens demand accountability from their rulers as the other part of this bargain. Several studies have shown that direct taxation (such as income taxes) generates the greatest degree of accountability and better governance, while indirect taxation tends to have smaller effects.*(Source: http://en.wikipedia.org/wiki/Tax#Purposes_and_effects)*

We can conclude that the tax has the objectives of raising revenue to have resource mobilization, equal distribution of wealth and income in the society, encouragement in production of certain products, encouragement in employment, saving and investment, removal of regional imbalances and enforcement of government policy. (Kandel, 2003)

Taxes are usually classified into two groups, direct taxes, and indirect taxes. Direct tax comprise of income tax, land registration tax, vehicle tax etc. these tax are directly imposed on person or an organization that bears the tax burden. The revenue generated by these taxes in Nepal is limited, indirect tax comprise of exercise duty, custom duty, sales tax, entertainment tax, VAT etc. these tax are shifted to other people. In developing country like Nepal, import tax used to be a major sources of government revenue till the government adopted liberalization policies, which leads to the drastic decrease in import tariff and ultimately in the government revenue.

Sales tax was collected at export manufacturing point leading to narrow tax base. Hence the need to introduce more scientific tools was felt and VAT come into implementation in. There is a predominant role in indirect taxes in Nepalese tax structure. Income tax and other indirect taxes do not seem to play effective role in revenue mobilization due to their inefficient operation. Sales tax however provides a considerable bulk of revenue but suffered from its narrow base, cascading and pyramiding effects, which create distortion without generating potential amount of revenue. That's why, value added tax system has been considered as an attractive alternative to exist as an indirect tax in modern time. VAT is the youngest form of taxation innovated in the second half of the twentieth century.

VAT is an indirect tax that is imposed on different goods and services on the basis of value added amount in different stages of production and distribution. It is a substitute of sales tax, hotel tax, contract tax and entertainment tax administered in different form or stages. Though, it is collected at each stage of production and distribution, it is eventually borne by the final consumer.

In Nepal, VAT was introduced in on 16 Nov 1997. This tax was lived in place of the Sales Tax, Hotel Tax, Contract Tax and Entertainment Tax. However, it could not be implemented fully until the FY 1998/99 due to political instability and strong opposition from them business community. Vat replaces the old Sales Tax, Contract Tax, Hotel Tax and Entertainment Tax. It has been designed to collect the same revenue as the four taxes it replaced. Since the collection of both customs duties and income tax depends, to a great extend, upon the effectiveness of VAT, it is expected to help enhance revenue collection.

VAT is considered as the reform tax system of the 21st Century, which has already been implemented popularly in more than 130 countries in the world. VAT is multi staged, commodity and services based tax which is levied on the value added of business at different stage of production and distribution. It is imposed on different stages. It imposed on value of goods and services. The value added tax is indirect tax depends on consumers. VAT is a broad based tax as it covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system which enables to efficient collection system, to increase efficiency and to reduce tax evasion. It is also refereed as the backbone of income tax system in Nepal.VAT plays great role in the revenue mobilization in Nepal .The reason behind VAT system; it makes transparency in all kind of transaction, helps to make the wide area of tax and discourages tax evasion. So it is needless to say the VAT is the most important sources constraints and difficulties in introducing and implementing VAT in Nepal. A large number of entrepreneurs, trades and business communities were against VAT system .The initial two year of VAT implementation were turbulent. Now it has become familiar and VAT is currently well receipted by the consumers as well as business and industrial communities of Nepal .This is account based tax system that's leads to transparency and accountability on the both part of tax payers and tax collection.

Since VAT covers the value added to each commodity by a firm during all stages of production and distribution it is a broad based tax. So, it can generate more revenue than other form of indirect taxes. The importance of VAT in the least developed countries like Nepal can be viewed on the ground that it is an effective means to collect revenue as a reformed sales tax of indirect tax system. Furthermore, VAT reduces chance of tax evasion.

VAT plays great role in the revenue mobilization in Nepal. The reason behind VAT system, it makes transparency in all kinds of transaction, helps to make the wide area of tax and discourages tax evasion. So it is needless to say that VAT is the most important sources of the government revenue. The value added tax system has proven to be effective in avoiding problems that normally might arise out of the double taxation of goods and services.

1.2. Focus of the Study

The sales tax system is very narrowly based and less productive. VAT broadens the tax base and increases the revenue elasticity. Therefore, to generate more revenue and establish a better tax system, Nepal has implemented VAT in 1997. This study aims to cover the areas like what is VAT, legislation of VAT system in Nepal, the structure of VAT revenue, ratios of VAT revenue to total revenue, total tax revenue, indirect tax revenue and GDP. Hence, the focus of the study is to find the trend of VAT revenue collection and its share in total revenue, total tax revenue, indirect tax revenue and GDP.

1.3. Statement of the Problem

In order to perform different social and economic activities every government needs huge amount of resources. These resources can be obtained through internal measure or external measure. The external way of collecting resources is not reliable and sound. Scarcity of resources has created problem for the realization of development goals in developing countries. Nepal has been facing increasing fiscal deficit due to the continuously growing expenditure and the low revenue performance since it first budget speech in 1951/52 Ad. In addition, the country has also been facing the increasing burden of foreign loan.

Trend of the resource gap in Nepal is shown below:

Table 1.1

Resource Gap in Nepal

(Rs. in million)

FY	Total Expenditure	Total Revenue	Resource Gap(2-3)	Foreign Grants	Resource Gap (4-5)	Foreign Loan	Resource Gap (6-7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1990/91	23549.8	10729.9	12819.9	2164.8	10645.1	6256.7	4398.4
1991/92	26418.2	13512.7	12905.5	1643.8	11261.7	6816.9	4444.8
1992/93	30897.7	15148.4	15749.3	3793.3	11956.0	6920.9	5053.1
1993/94	33567.4	19580.8	14016.6	2393.6	11623.0	9163.6	2459.4
1994/95	39060.0	24575.2	14484.8	3937.1	10547.7	7312.3	3235.4
1995/96	46542.4	27893.1	18649.3	4825.1	13824.2	9463.9	4360.3
1996/97	50723.7	30373.5	20350.2	5988.3	14361.9	9043.9	5318.3

1997/98	56118.3	32937.7	23180.4	5402.6	17777.8	11054.5	6723.3
1998/99	59579.0	37251.0	22328.0	4336.6	17991.4	11852.4	6139.0
1999/00	66272.5	42893.8	23378.7	5711.7	17667.0	11812.2	5854.8
2000/01	79835.1	48893.9	30941.2	6753.4	24187.8	12044.0	12143.8
2001/02	80072.2	50445.5	29626.7	6686.1	27440.7	7698.7	15241.9
2002/03	84572.3	56229.8	28342.5	8372.3	19970.2	8950	11020.2
2003/04	89442.6	62331.0	27111.6	11283.4	15828.2	7629.0	8199.2
2004/05	102560.5	70122.7	32437.8	14391.2	18046.6	9266.1	8780.5
2005/06	110889.2	72282.1	38607.1	13827.5	24779.6	8214.3	16565.3
2006/07	131851.0	86135.5	45715.5	15946.0	29769.5	10331.0	19438.5
2007/08	161349.90	107622.50	53727.40	20320.72	33406.68	8979.87	24426.81
2008/09	219661.92	143474.9	76187.02	26382.87	49804.15	9968.86	39835.29
2009/10	227101.32	177991.87	49109.45	38545.97	10563.48	4803.63	5759.85

Source: Economic Survey 2006/2007, 2007/2008, 2008/2009, 2009/2010, Ministry of Finance.

Budget Speech 2006/2007, 2007/2008, 2008/2009, 2009/2010, MOF, GON.

To narrow down the resource gap and get rid of the increasing foreign loan, the government should be able to collect more revenues from internal resources. The main internal resource is VAT. In this concern there are several research questions which are given below:

a) What are the practices relating to the VAT in Nepal?

b) Is there any changes being observed in the revenue collection after implementing of VAT?

c) What is the ratio of VAT revenue to the total revenue, total tax revenue and indirect tax revenue?

d) What is the VAT and GDP ratio in Nepal?

1.4. Objectives of the Study

One of the main sources of revenue of Nepal is tax. The VAT is expected to be a major instrument to generate the higher revenue. VAT is considered as the best form of sales tax with the merits of self policing, catch up effect, broad base and so on. The main objective of this study is to give a slightest look into theoretical knowledge of VAT and its implementation in Nepalese context. The specific objectives of the study are:-

1. To explore the practices relating to VAT in Nepal.

2. To explore the tax revenue structure in Nepal.

3. To explore the contribution of VAT in GDP, total revenue and tax revenue.

4. To forecast the trend of VAT revenue and GDP for future 5 years based on the time series analysis.

1.5. Significance of the Study

This study is done for analyzing the structure of revenue collection from VAT in Nepal. The computed ratio of VAT to Gross Domestic Product, total revenue, tax revenue with the help of historical data will evaluate the effectiveness of VAT in Nepal. So the research is significant in the sense that it will show the trend of VAT revenue collection in Nepal. The concerned will also keep themselves informed about the current condition of VAT implementation in Nepal. It will help other researchers as well who are interested in doing research related to Nepalese VAT system.

1.6. Limitations of the Study

The history of VAT is not so long in Nepal. Therefore, the study has very limited area of investigation. Most of the data were taken from

Economic Survey: 2007/08, 2008/09 and 2009/2010 and annual report 2007/08, 2008/2009 and 2009/2010 of IRD. Due to time and resource limitation only secondary date are used in this study. Pointwise:

a) This study has been concentrated about the study of Value Added Tax in Nepal from 2000/2001 because Ministry Of Finance provides data on VAT from these years.

b) The data present in the study are secondary in nature and completely historical.

c) This study extends up to the period of 2009/2010 only.

d) Limited statistical tools like Simple percentage, bar diagrams, trend line, and time series analysis are used to presentation and analysis of data.

1.7. Organization of the Study

This study is divided into five chapters. Prior to the body of the thesis, several pages of preliminary materials such as title page, Viva-voce sheet, Recommendation, Declaration of the researcher, Acknowledgements, Table of contents, List of tables, List of figures and Abbreviations used have been included.

The first chapter is about the introduction which includes general background of the study, brief description about Value Added Tax, statement of the problem, objectives of the study, needs and significance of the study, review of literature and limitations of the study.

The second chapter goes little bit in detail about the concept of the study. It includes the review of related literature which includes concept of Value Added Tax, Historical Background of VAT in Nepal, Legal Provision for VAT and review of related previous studies.

The third chapter focuses on the research methodology. In this chapter, the facts like type of research conducted, research design, how the data are collected, what kinds of data are used for research purpose and how the data processing and analysis is done.

The fourth chapter is presentation and analysis of data used in the study. In this chapter the secondary data collected from various sources have been presented in a systematic format: such as tables, charts, and figures. These collected data have been analyzed by using different mathematical, statistical and analytical tools. Further, the major findings of the study also have been presented.

The fifth and the last chapter is about the facts which are found through the study and conclusion of it. This chapter consists of summary of the major findings of the study, concluding it with major recommendations and suggestions about the VAT in Nepal from revenue perspective.

CHAPTER - II

REVIEW OF LITERATURE

A literature review is a description of the literature relevant to a particular field or topic. It gives an overview of what has been said, who the key writers are, what are the prevailing theories and hypotheses, what questions are being asked, and what methods and methodologies are appropriate and useful. As such, it is not in itself primary research, but rather it reports on other findings. A literature review may be purely descriptive or it may provide a critical assessment of the literature in a particular field, stating where the weaknesses and gaps are, contrasting the views of particular authors, or raising question. Such a review will not just be a summary but will also evaluate and show relationships between different materials. Even a descriptive review however should not just list and Paraphrase, but should add comment and bring out themes and trends.

The review of literature is a very important aspect of the research. This chapter highlights up on the existing literature. For this, several books, dissertation, reports, handouts and articles published in journals and newspapers are reviewed.

2.1. Conceptual Framework

Tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive the direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in satirical way about the taxation. In this respect, some say nothing is certain in this world but death and taxes, some say, Death and taxes are both certain but death is not annual; while others say, Death means stopping to pay tax. Here, it should be noted that all compulsory payments are not taxes. For example, fines and fees are also compulsory payments without having direct benefit to the payer but they are not taxes because the objective is not to collect revenue but to curb certain types of offences. Secondly, the taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. A tax is not a price paid by one for which he can claim for goods and services. The charge of price for goods and services by public authority is not a tax. Thirdly, the tax is paid to the government for running it. Fourthly, the amount is spent for common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society. Fifthly, a natural or an artificial person pays the tax. (Kandel, 2004)

2.1.1. Classification of Tax

Depending on the methods of payment of taxes, taxes can be classified into two major categories, viz. direct taxes and indirect taxes.

- **Direct Taxes**

In the general sense, a direct tax is one paid directly to the government by the persons on whom it is imposed. Some commentators have argued that a direct tax is one that cannot be shifted by the taxpayer to someone else. Under direct taxes the person makes payment direct to the revenue authorities. In the words of Dr. Dalton, A direct tax is really paid by the person on whom it is legally imposed. (Kandel, 2003)

Usually each individual's tax liability is assessed separately. Some examples of direct taxes are briefly described below individually. Example included income tax, corporate tax, capital gain tax, transfer taxes such as gift tax, and other taxes like vehicle tax, property tax, house and land tax etc.

The characteristic of a direct tax is equitable as per the property or income or it satisfies the principle of ability to pay. Moreover, it has the quality of progressiveness.

- **Indirect Taxes**

An indirect tax is a tax collected by an intermediary such as a retail store from the person who bears the ultimate economic burden of the tax i.e. the customer. The intermediary later files a tax return and forwards the tax proceeds to government with the return. In this sense, the term indirect tax is contrasted with a direct tax which is collected directly by government from the persons legal or natural on which it is imposed. In the words of Dr. Dalton, An indirect tax is imposed on one person but paid partly or wholly by another. (Dhakal, 2001)

An indirect tax may increase the price of a good so that consumers are actually paying the tax by paying more for the products. Examples would be automobiles, liquor, and cigarette taxes. An excise duty on motor cars is paid in the first instance by the manufacturer of the cars; ultimately the manufacturer transfers the burden of this duty to the buyer of the car in form of a higher price. Thus, an indirect tax is such which can be shifted or passed on.

The merits of indirect taxes are that it has wide base, mass participation, low chances of evasion and it is convenient to pay etc. However, it does not satisfy the principle of ability to pay.

2.1.2. Meaning and concept of VAT

VAT is a scientific tax system, which was first introduced in 1954 in France. It is an indirect tax. It is a broad-based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. Its real burden is shifted forward to the consumers.

Value Added Tax is not an additional tax, but has replaced taxes such as sales tax, hotel tax, contract tax and entertainment tax that used to be levied on the sale of goods and services. (Khadka, 1997)

Experience of VAT in different countries has shown that to address the various problems associated with the conventional sales tax system; the value added tax system has been successful. It is a tax that has been developed as an alternative for the traditional sales tax. That’s why it is also called improvised version of sales tax (IRD & VAT Project, 2001). VAT avoids cascading and pyramiding. In sales tax, there is no provision for input tax credit. It means the final consumer may pay tax on an input that has already been taxed previously. In contrast, the VAT that has been levied in the previous level can be deducted while paying taxes on the later levels.

VAT is a general consumption tax assessed on the value added to goods and services. It is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not a charge on companies. It is charged as a percentage of price, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is an indirect tax, in that the tax is collected from someone other than the person who actually bears the cost of the tax (namely the seller rather than the consumer). As VAT is intended as a tax on consumption, exports (which are, by definition, consumed abroad) are usually not subject to VAT or VAT is refunded. (Bhattarai & Koirala, 2007)

A value added tax (VAT), also known as 'Goods and Services Tax' (G.S.T), Single Business Tax, or Turnover Tax in some countries, applies the equivalent of a sales tax to every operation that creates value. To give an example, sheet steel is imported by a machine manufacturer. That manufacturer will pay the VAT on the purchase price, remitting that amount to the government. The manufacturer will then transform the steel into a machine, selling the machine for a higher price to a wholesale distributor. The manufacturer will collect the VAT on the higher price, but will remit to the government only the excess related to the "value added" (the price over the cost of the sheet steel). The wholesale distributor will then continue the process, charging the retail distributor the VAT on the entire price to the retailer, but remitting only the amount related to the distribution mark-up to the government. The last VAT amount is paid by the eventual retail customer who cannot recover any of the previously paid VAT. For a VAT and sales tax of identical rates, the total tax paid is the same, but it is paid at differing points in the process. VAT is usually administrated by requiring the company to complete a VAT return, giving details of VAT it has been charged (referred to as input tax) and VAT it has charged to others (referred to as output tax). The difference between output tax and input tax is payable to the Tax Authority. If input tax is greater than output tax the company can claim back money from the Tax Authority. VAT was historically used to counter evasion in a sales tax or excise. By collecting the tax at each production level, the theory is that the entire economy helps in the enforcement. However, forged invoices and similar evasion methods have demonstrated that there are always those who will attempt to evade taxation. *Source:http://en.wikipedia.org/wiki/Tax#Value_Added_Tax_.2F_Goods_and_Services_Tax*

From the above definitions, we can summarize that:

- VAT applies to supplies of goods and services for consideration other than exempt goods by taxable person. VAT shall be charge on any supply of goods or services. VAT is a tax on trading transaction. The real VAT payer is the consumer not the producer.
- The VAT is a broad based tax as it covers the value added to each commodity by a form during all stage of production and

distribution. It is a modern tax system to improve the collection of taxes, to increase efficiency and to reduce tax evasion. It is also regarded as the backbone of income tax system.

- VAT is levied in the final price of the Supply.
- VAT is an indirect tax. However it is not new form of taxation. It is improved and modified form of traditional sales tax.
- VAT is levied on value added at each stage of production and distribution activities. The stage may be import, export, manufacturing, wholesaling, and retailing.
- It is believed to improve the collection of taxes, to increase efficiency and to lessen tax evasion.

2.1.3. History and Development of VAT

The concept of VAT was introduced in 1919 by Dr. Wilhem Von Sieman in Germany. This concept was brought to replace the multi stage sales tax due to its undesirable effects, particularly cascading and pyramiding. However, the Germany did not implement the VAT system. The concept of VAT was developed further in 1949 by a tax mission to Japan headed by Prof. Carl S. Shoup. The concept of VAT remained only in literature until 1994. In 1954 France implement the VAT covering only in the industrial sector. The VAT was limited to only up to whole level.

By the end of the 1960s, only eight countries including France, Brazil, the Netherlands, and Sweden etc. had adopted VAT in their countries. Since then, VAT has been introduced by at least one country each year and by now it has been adopted by around 135 countries.

In Asia, Vietnam adopted VAT in 1973. South Korea, China, Indonesia and Taiwan introduced VAT In 1977, 1984, 1985, 1986, respectively. Similarly, VAT was introduced by Philippine in 1988, Japan in 1989, Thailand in 1992 and Singapore in 1994.

In SAARC region, Pakistan implemented VAT in 1990. India has adopted full VAT system from 2004/05. Previously, MODVAT and CENVAT system was there.

The list below shows the chronology in which VAT was implemented in different countries.

Table 2.1

Implementation of VAT in different countries in the chronological order.

Year	**Countries that have started adopting VAT**
1954	France
1960	Ivory Coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany, Uruguay
1969	Netherlands, Sweden
1970	Ecuador, Luxemburg, Norway
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, United Kingdom, Vietnam
1974	Argentina, Chile, Colombia, Costa Rica, Nicaragua
1976	Honduras, Israel, Peru
1977	South Korea, Panama
1980	Mexico
1982	Haiti
1983	Dominican Republic, Guatemala
1984	People Republic of China
1985	Indonesia, Turkey
1986	Morocco, New Zealand, Nigeria, Portugal, Spain, Taiwan
1987	Grenada, Greece
1988	Hungary, The Philippines, Tunisia
1989	Japan, Malawi

1990	Iceland, Kenya, Pakistan, Trinidad and Tobago
1991	Bangladesh, Benin, Canada, Jamaica, Mali, Algeria, South Africa, Armenia, Azerbaijan, Cyprus, EL Salvador, Estonia, Fiji, Kazakhstan
1992	Tajikistan, Belorussia, Kyrgyzstan, Russia, Thailand, Turkmenistan, Ukraine,

Source: The VAT Project Office (Revenue Administration Support), IRD, IRD/DANIDA, 2001.

2.1.4. Types of VAT

VAT has different types. They are categorized on several bases. The most important of them is the classification of VAT on the base of its treatment to capital goods. The VAT has typically been classified into three variants according to the way the capital goods are treated. They are: consumption-type, income-type, and consumption-type.

- Consumption type VAT excludes all capital goods purchased from other firms while depreciation is not deducted from the tax base in the subsequent years.

  Consumption type VAT =

  Gross domestic product – cost of intermediate goods - cost of capital goods

- Income type VAT includes all capital goods purchased from other firms in the year of purchase while depreciation is excluded from the tax base. The tax fails both on consumption and net investment.

  Income type VAT =

  Gross receipts – cost of intermediate goods - Depreciation

- Gross domestic product type VAT neither excludes the purchase of capital goods not the depreciation from the tax base. It means the tax is levied both on consumption and gross investment.

GDP type VAT =

Gross receipts – cost of intermediate goods. (Kandel, 2003)

Nepal has adopted the consumption type multistage vat system. Under this system tax is levied on value added at each stage in the process of production and distribution. In this system there is a provision of input tax credit mechanism from producer to the retailer level. So, VAT is calculated indirectly using input tax credit mechanism. In which the tax payer pays vat on its value added only. In other words the registered tax collector pays tax after deducting the amount already paid input vat from the tax on sales of product or services. Because of destination based principle Nepalese vat system has made the provision of tax free to export.

2.1.5. Methods of Computation of VAT

VAT can be collected by using different methods of computation. However, the choice of the appropriate method depends basically on the types of VAT employed and the principle under which VAT is adopted. The VAT can be computed by employing any of the three methods:

- **Credit Method**

This method is also called the Invoice Method. Under this method, tax is levied on the total value of sales and it requires that the amount of VAT charged be explicitly stated on the invoice associated with any taxable transaction. The amount of tax merchant submits of tax authorities is simply the difference between the tax collected on his sales and the tax he paid on his purchases. Under this method tax liability is derived by deducting tax paid by the seller in purchasing from the total amount of tax collected from tax.

Nepal has adopted the tax credit method. Since business is required to state the tax on invoices under the tax credit method, it facilitates border tax adjustments. This implies that the amount of tax that levied on export can be refunded to exporters. Similarly, this method is effective under the destination principle where exports are zero-rated and the tax credit chain is not broken. It also provides the facility of cross checking. (Khadka, 1997)

- **Subtraction Method**

Under this method, VAT liability is calculated by subtracting the cost of materials from sale proceeds. Tax liability is computed by applying the applicable VAT rate to the difference between his total sales and total purchases. This method is appropriate for the consumption variant of VAT.

- **Addition Method**

Under this method, the tax base is obtained by adding the incomes produced by the firm or by adding the payment made by the firm to the factors of production employed in turning out the product, such as wages, interest, rent, royalties and profits. This method is appropriate for the income type of VAT.

2.1.6. Reasons for the increasing popularity of VAT

Although VAT has been first adopted just about half century ago, as compared to other traditional tax system, it gained its momentum in little time. It is a precondition to have adopted VAT for any European countries to become a member of EEC. This precondition plays a vital role in the popularization of VAT.

VAT is charged equally on all goods. Therefore, it is more equitable in the sense that it falls equally on all goods and gathers a different proportion of value added at various stages. (Khadka, 1997)

Exports are commonly relieved from taxation in order to maintain the competitive power of domestic manufacturers in the international market. This promotes exports and increase global competitiveness. The tax levied on exports is refunded to exporters. It is comparatively easier to refund the exact amount of tax levied on exports under VAT.

Under VAT system especially when the invoice method is adopted, the exact amount of tax can be shifted forward to the consumer. Another reason for the growing popularity of VAT is that this tax avoids the problem of cascading or pyramiding.

There is tremendous scope for increasing the revenue from VAT. It offers greater revenue potentiality as compared to other forms of sales taxes. VAT is an improved version of sales tax, which has the virtue of mobilizing substantial amount of revenue.

VAT is favorable from the administrative point of view also. VAT is favored on the ground that, as the base of this tax is broad; a relatively low rate can produce the required revenue. Low rate reduce the possibility of tax evasion. Since the tax burden is distributed among a large number of taxpayers under the VAT system, it does not put a heavy burden on a taxpayer and hence avoids the chance of considerable tax evasion. (Kandel, 2004)

Thus, VAT is a modern and transparent tax. It is less distorted and more revenue productive. That is why this tax has become a popular topic for tax reform and has been spreading all over the world since the late 1960s. The attractiveness for VAT across the nation has proved that it is preferred not merely for raising revenue but also its avoiding multiple distortions as created by other forms of sales tax. In the process of economic liberalization and globalization, VAT makes the tax system flexible and the bracket widen. All this indicates that the VAT is the tax system of the present day.

VAT does not bring any unintended and undesirable effects in the methods of production and distribution or in consumption. That is why it is neutral with respect to the choice of method of production and distribution. Since the tax is levied only on the value. It is efficient too. Added at each stage in the system, tax liability remains the same regardless of the system of production and distribution. Total tax paid on a given commodity depends on the rate of tax and on the total value added (i.e. the final price) of the commodity but not on the number of states through which it has passed. (Bhattarai & Koirala, 2007)

Thus VAT does not affect the preference of the consumer. VAT is neutral with respect to consumer's choice. VAT does not affect the relative price. Consequently, there is no need for the consumer to shift from one commodity to the other as responsive to tax. It also avoids probable distortions of the optimum allocation of resources.

2.2. VAT in Nepal

2.2.1. History and Development of VAT in Nepal

In the 1980s and 1990 there was a worldwide wave of economic reforms programs. The wave touches the Nepal too. The Nepalese government revealed its intention for the adoption of various reform programs to promote market oriented economy in the Eighth Plan (1990-1995) document. In a process to reform task policy, it has mentioned that some time in the mid-plan period a VAT will be introduced in the country.

The government created a task force on VAT in the Sales TAX and Excise Department in September 1993 with the financial assistance of USAID and technical cooperation of the Harvard Institute for International Development of Harvard University. However, the VAT preparatory work was suspended after the change in government in November 1994. Upon request from the government of Nepal, DANIDA agreed to provide technical assistance for the implementation of VAT in February 1997 and took over the VAT project. The DANIDA technical assistance has a wide range of coverage that includes:

(a) implementation of the computerized VAT procedures

(b) setting up of an organization to run a modern VAT administration based on self-assessment

(c) registration of taxpayers

(d) collection of VAT, including receiving and recording of VAT data based on a computerized VAT system

(e) VAT refund

(f) audit procedure, including book-keeping and accounting

(g) internal monitoring, and

(h) training in all aspects above. (Dahal, 2004)

As a part of preparatory work, the VAT Act was passed in 1996 by the parliament. The government in 1997 approved VAT Regulations. The department of sales Tax and Excise were renamed as the Department of Value Added Tax (VAT). After a year, the Ministry of Finance approved nine volumes of manuals. Further more, VAT Taskforce organized a various discussion and interaction program related to VAT in different parts of the country. Various introductory brochures were published and distributed to the potential taxpayers, businessmen and the administrative staffs.

At that time, Most of the business community showed their dislike to the VAT. Business persons protested the decision of the adopting of VAT with the slogan “NO VAT” issue of VAT resulting in a conflict between the government and the private sector. Despite the protest by the business community, the government implemented the VAT from the scheduled date of November 16, 1997.

Government addressed few issues that were asked by the businessmen, Finance Bill 1998 incorporated following changes.

- The threshold was increased from Rs. 1 million to Rs. 2 million.
- Cottage industry got relief from the registration in VAT.
- A special arrangement to be provided to settle the old stock of businessmen.
- The rate of interest was reduced to 15 percent form 18 percent.
- The rate of penalty of the late filing of return fixed at 0.1 percent per day instead of 100 percent.
- Tax offices were empowered to issue a tax assessment if tax prayer cannot justify the reason for under invoicing.
- Firms, companies and industries are required to issue serially numbered invoice with their names and addresses. The VAT administration may inspect, with prior approval of the DG of the VAT Department, the books of accounts of unregistered vendors in connection with VAT, and may penalize if the books of accounts are not maintained properly.
- A list of exempted items increased.

Finally both parties agreed not to implement the provisions provided by the Finance Act until they reached an agreement. Ultimately, both parties agreed on 39 points on September 1998. Most of the agreement was in connection with the further exemptions and concessions in various fields VAT as well as to the taxes. Few of them were in adverse direction of VAT principle.

VAT administration had allocated a TPIN (taxpayer identification Number) consisting of nine digits to registered taxpayer with a view to process data in computer. It was developed as per international standard. Last ninth digit was for checking the accuracy of the number, which is called check number. In accordance with the purpose of integrating VAT and Tax department into one department from coming year a provision was made in Finance Act, 1999 that A PAN (Permanent Account Number) was allocated to the registrant of income tax from the next fiscal year. For this purpose a Taxpayer service center established under the department of Tax.

Issuance of PAN was accessed to all tax payers of the country after the establishment of Inland Revenue Department (IRD). For the simplification of management of date, a database computer system has been developed since the inception of VAT in Nepal. In order to initiate measures to reform tax administration, the government decided to merge the Department of VAT and Department of Income Tax into Inland Revenue Department (IRD) in 2000.

The IRD administer the following taxes from the same window.

1. Income tax (individual and corporate income tax, Remuneration income tax, interest tax, house rent tax.)

2. Value added tax.

3. Non-tax (dividend, principal and interest payment, royalty, charges and fees)

4. Other related charges and fees related to excisable goods.

The Government of Nepal has increased VAT rate from 10% to 13% effective from Magh 1, 2061. (Dahal, 2004)

2.2.2. Basic Features of Nepalese VAT system

The following are the main features of the Nepalese vat system:

- The consumption of VAT through tax credit method.
- The principle of destination.
- The level of threshold is Rupees 2 million.
- The facility of tax refund.
- The application of VAT to all business turns over through the retail stages.
- The rate of VAT is single and positive @ 13%
- The provision of exemption and zero rate for the goods and services.
- The allowance of tax credit for taxable supplies including the zero rate supply.
- Small entrepreneurs are exempted to register in VAT office.
- Self assessment system. (Dahal, 2004)

2.2.3. Coverage of VAT in Nepal

Tax coverage is guided by tax invoice system. VAT is administered by invoice method. The coverage of VAT in Nepal is based on transfer, sales, supply, import and export of goods and services except some special provisions. It is levied on the value added at each stage of the production or distribution. Every person or firm or companies who are involved in such transaction are liable to pay and collect tax. VAT divides all goods and services into two basic categories, taxable and tax-exempt. Goods and services are either taxed at the standard rate of 13% or they are taxed at 0%. (Kandel, 2003)

2.2.4. Tax Administration

IRD is currently responsible for the administration of the taxes like Income Taxes, Corporate Taxes, Value Added Tax, Excises and certain fees and duties like Entertainment fee, Film Development Fee, Tourism Development Fee, Liquor control duty, Smoking liquor duty, special fee, etc. Likewise the department is also responsible for monitoring the non-tax revenue of the Government. This Department is located in the Kathmandu Valley. Under IRD there are 21 Inland Revenue Offices through the country. These offices and department jointly administer the VAT as well as income taxes.

The IRD has functional organizational structure. From operational point of view it has been divided into two wings. One is policy related and other is operational wing. The operational wing contains six functional works and these are taxpayer service, tax audit, investigation, collection, tax refund and others. Similarly policy related wing contains the sections related to personnel administration. The Government of Nepal may delegate tax administration related authority to other government officer. Similarly the VAT Act has provided the authority to the Government to define the jurisdiction of tax officers. Thus the department carries out the functions such as tax administration, making tax policy, tax treaty and International taxation, review and appeal related tax matters, advance ruling, tax enforcement and investigation, tax audit, tax refund, excise and liquor administration, tax payer services (Adhikari, 2003).

The MOF is the supreme authority to collect government revenues and deal with tax administration primarily through Department of inland Revenue and Department of Customs. The main purpose of MOF is to maintain economic stability and enhance economic growth in the country. The MOF is comprised of 8 divisions, 3 Departments, 1 Revenue Training Center and Office of the Financial Comptroller General. Department of Customs, Revenue Administration Training Centre, Department of Revenue Investigation and Inland Revenue Department are the wings of Ministry of Finance.

The major functions of the IRD are to:

(a) generate tax revenue from income tax, VAT and excise duties,

(b) implement tax policy

(c) review tax assessment,

(d) supervise tax offices and formulation of Acts and Regulations relating to income tax, VAT and excise duties, and

(e) provide services and issue Permanent Account Number (PAN) to the taxpayers. (Dahal, Madan K., 2004)

2.2.4.1. Registration (VAT Act 2052: sec 10)

VAT is subject matter of law, for this registrant is most. The criteria for the registration in any business are based on annual taxable turnover or transaction of more than 2 million rupees.

Small venders those who do have less than 2 millions annual turnover may also registered their business voluntarily.

As a government agent for the purpose of the VAT collection, the obligations of the VAT registrant are as follows:

- Submit VAT return and pay the collected VAT amount within the 25th day of the following month

- Provide tax invoice to their customer.

- Maintain purchase and Sales Book separately for the VAT purpose.

- Keep their VAT record for a period of 6 years

- Inform the Inland Revenue Office of changes to the business including new address, telephone number or a reorganization of a partnership within 15 days.

- Put their Certificate of Registration in the premises where customers may easily see and read it,

- Allow tax officers to enter the business to examine the business records and the stock on hand.

Most business will require only minor modifications to their record keeping. In order to complete his VAT return a taxpayer will need to ensure that his books and records provide:

- The amount of VAT paid on purchases

- The amount of VAT collected on sales

- A method of distinguishing between taxable and exempt sales

- The time the goods and services were supplied and

- Evidences that goods were exported, if any. (Amatya, Pokharel & Dahal ,2004)

2.2.4.2. Deregistration (VAT Act 2052: sec 11)

A VAT registration may be cancelled by anyone whose total taxable sales for consecutive calendar quarters is not more than Rs. 2000000 and who has been registered for a full fiscal year or by persons who no longer have commercial activities. Regarding the cancellation of registration the VAT Act has mentioned the following conditions:

- If the organization is closed or transferred or collapses in case of corporate body.
- If the business is running under proprietorship with the owner dead.
- If the partnership is dissolved
- If the distributor or producers stops selling or producing taxable goods and services
- If the business was registered by mistake.

Regarding the cancellation, the tax officer collects the tax on the capital and other goods that the tax credit facility has been taken by taxpayer previously. The categories falling under this ground neither are required to collect VAT nor allowed to claim a refund of the VAT that they have in producing their goods and services for sale. (Amatya, Pokharel & Dahal , 2004)

2.2.4.3. Accounting (VAT Regulation Act 1996: Annex 8-9)

VAT is an indirect tax based on the transaction of goods and services. The taxpayer has to maintain accounts of his/her transactions. This type of accounting is relatively a simple one. For this purpose, the tax-payer has to maintain a purchase book, a sales book and VAT accounts and has to issue tax invoice or abbreviated tax invoice while selling/supplying goods or services. In order to complete his VAT return a taxpayer will need to ensure that his books and records provide:

- The amount of VAT paid on purchases
- The amount of VAT collected on sales
- A method of distinguishing between taxable and exempt sales
- The time the goods and services were supplied and
- Evidences that goods were exported, if any

The purchase and sales book should include the following things.

- The invoice number
- The invoice date
- The supplier's name and PAN number in the purchase book
- The customer's name and PAN number in the sales book
- The taxable value, and
- The amount of VAT. (Amatya, Pokharel & Dahal , 2004)

2.2.4.4. VAT Invoices (VAT Regulation Act 1996: Annex 8-9)

A registered tax-payer has to issue a tax invoice while selling goods or services. But 'Tax Invoice' has to be stated as 'title' only in the first copy of the bill and not in the other two, out of a total of three copies. The first original copy has to given to the recipient, the second copy has to maintained in a separate record to be submitted at the tax office if and when asked for and the third copy should be maintained as record for the purpose of one's transaction.

Issuing and receiving invoice is one of the prime duties of a VAT registrant. If a tax invoice is not issued, the VAT registrant has to face penalty and will also forego the facility of tax deduction.

In the sale of up to Rs 5,000, including tax, an abbreviated tax invoice can be issued. An example of an abbreviated tax invoice is given below. To issue an abbreviated tax invoice the tax-payer has to take the permission of the tax officer. (Amatya, Pokharel & Dahal , 2004)

2.2.4.5 Return Filing (Sec 18)

As VAT is based on self-assessment system, tax payer himself calculates his tax liability. Every registered taxpayer is required to submit the return to a tax officer within twenty five days after the close of tax period. Such return all have to be submitted whether or not a taxable transaction was carried out in that tax period. Failure to submit return in specified time is penalized. (Amatya, Pokharel & Dahal , 2004)

2.2.4.6 VAT Collection

The producers and suppliers are the agents for tax collection on behalf of the Department or VAT administration. Usually they collect VAT on sales and deposit the collected amount after crediting the tax (if any amount remains) in prescribed public treasury account. Tax should be collected in selling price that comprises the costs related to transportation and distribution expenses as well as profit. Excise duty, custom and other tax except income taxes are also included under the selling price. But the trade discount and trade commission are not included. A person who is not registrant is not entitled to collect tax. The collection of VAT is not the responsibility only of the business community but also of the Revenue Offices. In Nepalese context, if the taxpayer fails to deposit collected tax by regular system, the tax officer may implement various methods and measures to collect the tax arrears. These methods they may employ are as follows:

- deducting the tax from the refundable tax amount
- possessing the taxpayer's fixed and current account
- auctioning the property owned by the taxpayer.

- deducting from the bank account

- deducting from the amount payable to taxpayers by Government offices or Government owned enterprises.

- deducting from the amount payable by the third person with the prior approval of the taxpayer.

- blocking the taxpayers' export-import business. (Amatya, Pokharel & Dahal , 2004)

2.2.4.7 Tax Credit

VAT is grounded on tax credit method. All the tax paid on purchase of goods and services, including assets, stationery and other expenses, related to business are allowed to credit full amount from the output tax collected on sales. There are some good, which is very difficult to ascertain whether stated in rule 41(1), tax may not be deducted in respect to the following goods and services.

- beverages

- alcohol or alcohol mixed beverages such as liquors and beers;

- petrol;

- Entertainment expenses.

Some goods are used for the both purposes of the business sand personal use. Tax paid o the following goods may be deducted on the following proportions.

- on all aircraft, 40 percent of purchase value;

- on automobiles (any motor vehicle with three or more wheels used on a road for carriage of passenger, 40 percent of purchase value);
- on computer, 60 percent of purchase value. (Amatya, Pokharel & Dahal , 2004)

2.2.4.8 Assessment

VAT is self assessed tax. Taxpayers assess their liability themselves. They are self allowed to get credit tax paid on purchase. Self-assessment system is developed in the assumption does not satisfy. Taxpayer may assess wrongly o may fail to pay correct tax. To correct this situation there is a provision of management tax assessment, which is done by the tax officials. Following criteria has been fixed for management tax assessment.

a) It tax is not field

b) If tax return is filed lately

c) If tax return contains incomplete information or

d) If tax official has reason to believe the tax is not genuine. (Adhikari, 2003)

2.2.4.9 Refund

Excess of input tax over output tax in any tax period can be adjusted in the following tax period by carrying forward to next period or can claim for refund to the tax office. Two major criteria have been fixed in VAT law for the claim of refund by taxpayer. IT is allowed to claim either by regular export basis or by regular six months credit basis. Exporter having more than fifty percent export to total sales is treated as regular exporters.

There is also a separate provision of refund for the diplomat and foreign aided projects. They are allowed to claim refund immediately. (Adhikari, 2003)

2.2.4.10 MIS (Management Information System)

The tax system should be backed by good and effective information technology which must be taxpayers friendly and conducive to the tax administration as well. A scientific information system provides highly sophisticated and standardized services to the tax payers, providing them with needed and adequate information at the right time and also to the management and the decision makers. To meet this very purpose, a separate department called "Information Technology Section (IT Section), is separately installed.

"The IRD posts the data in taxpayers' account and sends the result to the related Revenue offices. The information of taxpayer is kept confidential according to VAT Act. DANIDA VAT Project has contributed a lot to systematization of the MIS in Nepal." (Adhikari, 2003)

2.2.4.11 Appeal

A taxpayer may file an appeal to the Revenue Tribunal within 35 days against tax assessment o penalty charged by a tax officer of an ode by the Director General relating to the suspension of this place of transaction. A provision of appeal to director general has also been included in first amendment in VAT act as a choice to taxpayer.

Before filling the appeal he taxpayer must deposit the disputed amount of the assessed tax due the rest of the amount of the tax due plus the whole amount of the fire shall have to be deposited or a bank guarantee of the same has to be provided. (Amatya, Pokharel & Dahal , 2004)

2.2.4.12 Offences and Penalties

In the VAT Act, there is a special provision for the offences, and penalties. Following acts are considered offence and fine and penalty will be imposed to the taxpayer:

- No registration within 90 days from the commencement of the Act
- No publication of registration certificate within the business premises publicly.
- Not giving information regarding transfer of location or area of business to the authority within 15 days from such transfer.
- Not issuance of bill.
- VAT collection without registration.
- Not filing of tax statement as per the prescribed period.
- Any kind of cheating forgery or fraudulent transaction.
- Creating obstacle to the tax officer during the inspection of business transaction.

The Act also has the provision of punishment to tax officers. If the tax officer is found to have made the assessment quite negligently or maliciously, the Director General has a full authority to take action against such a culprit. (Adhikari, 2003)

2.2.4.13 Rewards

According to VAT Act, if a person provides information with solid evidence showing that a tax payer has evaded or attempted to evade all or some portions of tax, he will be rewarded with the amount equal to 20% of the amount of tax collected on that basis of such information. The Director General himself is responsible for rewarding the informants. (Adhikari, 2003)

2.3 Review of Related Studies

Since the period of introduction of income tax in Nepal, many individuals as well as some institutions have made efforts on study of taxation for finding the ways for the improvement of income taxation. Many books, research reports and articles have been written and published in this respect. The researcher had consulted books, theses and some articles concerning with income taxation during the thesis writing. Some of them are presented in brief below.

2.3.1 Review of Books

The book *Nepalma Mulya Abhibriddhi Kar: Siddhanta ra Byabahar* is collection of different articles published in various newspapers and written by Dr. Rup Bahadur Khadka during 2051/54. This book as increased the public awareness regarding the implementation of VAT. There are examples of India, China and Bangladesh where VAT had been already introduced. The legal, procedural and structural aspects of VAT are also covered in the book. It also tells the success story of Singapore and the failure story of Ghana.

Silwal (1999) has expressed his practical experience about VAT. His books cover all aspects of VAT. As per him VAT is an all stage no cascading tax system. It extends to all levels of production and distribution. Similarly it covers all stages and services. Any discrimination in taxing goods or services exempting any of them renders VAT ineffective.

Silwal suggests that the factor affecting VAT design should br taken into consideration. A poorly designed VAT accompanied by week administration would just drain the treasury. So, utmost care is necessary while designing a VAT. According to him, the following facts were considered while designing a VAT in Nepal (i) tax base issue (ii) rate structure issue (iii) exemption issues and (iv) threshold issues.

Finally, he has reached a conclusion that the introduction of VAT provides an opportunity to sweep away to cobwebs and revamp a substantial part of the tax administration. In every country where th has been implemented properly the VAT has proven itself as a revenue productivity tax. However, benefit from VAT depends upon its coverage.

Chandra Mani Adhikari (2003) deals with the theoretical concept of VAT which includes historical background, objectives, merit and demerit of VAT introduction of VAT system in Nepal, different terminologies associated with VAT, Tax administration system and legal provision made for the VAT implementation in Nepal and Value Added Tax Rule 1997 and Value Added Tax Act 1996.

Kandel (2004) his book deals with the legal provisions of Income Tax Act 2058. He has also mentioned about the concept of VAT and methods to calculate VAT in this book.

Amatya , Pokharel & Dahal (2004) in their book, an in-depth approach to the study of income tax, property tax and value added tax in Nepal in order to meet the specific requirements of the students studying taxation. This book includes legal provisions of Income Tax Act 2058 and Value added Tax Act 2052. Not only theoretical but also numerical problems of income tax and value added tax are shrewdly presented in this book.

Bhatpara and Kerala (2004) was specifically designed for the students of MBS 2nd years under Tribhuvan University. In this book they have described the income tax system in depth. This book includes the separate chapter on Value Added Tax. It describes VAT practices in Nepal with several theoretical aspects and numerical examples.

2.3.2 Review of Journals and articles

(Dr. Jyoti, 2002) - New Business Age, Feb 2002 issue has an article named VAT: Analysis and Suggestion written by industrialist and intellectual personality Dr. Roop Jyoti. He opines that in response to realization that a fundamental change was necessary in the country's revenue policy VAT was introduced in Nepal. In the beginning, though the business was strongly against the VAT, they gradually withdrew the opposition as they went on being clearer about positive aspects of the VAT. Government went through many negotiations with business communities before implementing VAT in the Nepal. He express that success of the VAT is dependent on some prerequisites, such as: acceptance of the correct invoice, self-assessment of taxes, and refund of the tax amount in a speedy and simple manner when the conditions for a tax refund are met.

He has also highlighted the usefulness of VAT in Nepal showing the reasons like: limited scope for revenue officials to use discretion, honest taxpayers has practically no need to have contacts with the tax officials, due to the self-enforcing mechanism of VAT, the tax payers are forced to become honest.

According to him VAT system will fail not because of any defect in it but because of these reasons: inadequate and incorrect step taken to ensure billing and failure to enforce VAT threshold on an effective way.

(Dr.Thapa, 2003) - An article entitled "Tax System and Its Reforms in Nepal" written by Dr. Gobinda Bdr. Thapa, was published in the Business Age in Dec 2003 views that VAT as an important element of tax return program.

(Dhungana, 2003) - Mr. Yadav Prasad Dhungana has scrutinized the legal aspects of VAT in Value Added Tax and Its Legal Scrutiny. He has pointed out the hurdles like political instability, corruption, bad governance, frequent change in government and Moist revolution for weak implementation of VAT system.

(Dahal, 2004) - Dr. Dahal has analyzed the tax administration, different tax reforming projects like VAT project, ITAC project and ASYCUDA project and pointed out the proposed agenda for reforms as follows:

- Introduction and expansion of IT system to all revenue offices through networking.
- Human resource development for sustainable revenue service.
- System development and its improvement through developing appropriate long-term revenue policy, simplifying procedures and reforming tax administration.
- Improvement in tax laws and regulations.
- Institutional and infrastructure development, and
- Improvement in the capacity of revenue administration.

(Khadka, 2004) – Dr. Khadka has pointed out that no issuance of tax invoice, absence of proper book keeping and accounting, unsatisfactory level of tax auditing etc. as the challenging factor of VAT system in Nepal.

2.3.3. Review of Previous Researches and Dissertations

The dissertation taken into account are:

Nepal Chamber of Commerce also made a study to analyze the possible effects of VAT in Nepalese economy in 1997: Dr. Pushpa Raj

Rajkarnikar headed the team, the main findings of the study according to report is as follows:

- VAT affects adversely in price level
- It increases the price of imported goods. Ultimately increase the cost of production there by reduces the export business.
- Requirement of book keeping is complicated.
- It would finally affect the small traders.
- It is untimely to implement.
- It would be unjustifiable on social ground.
- Present administration in incapable for handling VAT.
- Computerization system is not sufficient and it is new concept for the tax administrator.

The report suggested for a partial VAT on some commodities. It was in favor of phase wise implementation of VAT. The study analyses negative impact of VAT neglecting its positive impact.

Arjun Dhakal (2000), in his dissertation, ***VAT and its Revenue Potential in Nepal***, analyzed the Nepalese tax structure along with the basic emphasis and historical b background and potential revenue of VAT in Nepal. The increasing trend tot the resources gap of Nepal is forcing the country to dept-trap situation. Domestic resource mobilization through the properly designed tax system is the best way to uplift the situation. In this process, Nepal has adopted the destination based, consumption type VAT operated by the tax credit method. VAT encourages investment, supports economic growth and keeps price stable. Exceptions and zero rating reduced the regressively of VAT.

Raju Chaudhari (2001), in his dissertation, ***VAT in Nepal: An Analysis of its problems and prospects***, having the objective to review historical background of VAT, to examine the structure of VAT in Nepal, to observe the contribution of VAT to resource mobilization and to analyze the existing problems of VAT in Nepal through the primary and secondary data and information, has concluded that the main problems for business houses are account keeping and billing and the weakness of VAT administration are lack of motivation and service minded attitude among tax officials lack of honesty in VAT officers.

Padam Raj Paudel (2004), in his dissertation, ***A Study on VAT: Implementation, Problems and its Effectiveness in the Nepalese Economy***, suggests the VAT laws and administration in Nepal be deeply scrutinized. There is shortcoming in the implementation. For the efficiency of tax system, in his view, there must be strong commitment, manpower development planning within the administration. Apart from them, Tax education packages are to be made and initiated hence, tax administration and tax compliance could be improved. He is too optimistic about the prospect of revenue collection from VAT if the problems relating to VAT system in Nepal can be solved and resources fully and effectively utilized. For this, as he recommends, Tax related information should be published regularly through journals, magazines, newspapers pamphlets, radios, television, and cinema. Interview programs with professors, researchers, tax experts and economists should be conducted and published through media. Timely revision should be made in the matter of VAT policy

Pawan Kumar Neupane (2006) The unpublished dissertation entitled ***Resource Mobilization Through Value Added Tax in Nepal*** has the basic objective to examine historical background of Value Added Tax and to analyze mobilization of revenue through VAT. Mr. Neupane concluded that VAT administration has to begin its program package very strictly and immediately to register the traders, who are supposed to get registered in the VAT in order to control the leakage of revenue and to control tax evasion so that the number of the taxpayers would increase and hence the revenue collection would also increase exponentially. His suggestions are:

- the boundary of VAT should be increased instead of increasing the rate of VAT in order to increase the tax amount under VAT,

- The concentration must be given to bring the use of billing in all trading concern,

- the most important one, the consumer should be comprehensively educated about the nature and beneficial aspects of VAT.

Prabin Pandak (2006), in his dissertation, ***An Overview of tax system in Nepal: A study of VAT,*** suggests that existing threshold of 2 million and provision of tax refund are two possible gates for tax evasion. It seems that existing exemption has a broad coverage however som exemptions are unavoidable due to administrative complexity and equity aspect. So, exemptions should be minimized gradually.

2.4. Research Gap

Very few studies had undertaken on the topic of VAT in Nepalese context about fifteen years ago since VAT came into operation. Most of the studies were related to theoretical aspects of VAT in relation to total tax revenue and government revenue. So, an attempt has been made in this study to study the contribution of VAT in total government revenue and GDP in Nepal. This study has tried to study the contribution made by VAT. Further, an attempt has been made to analyze the VAT revenue in government and overview of the future prospect as well in descriptive and analytical way. So, this information makes this study different from other studies. It is hoped that this study will be fruitful to the interested persons, scholars, students, professors, businessmen and government for academic as well as policy perspectives. Objectives of the study and inclusion of new data, statistics and information make this study different from other studies.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology is a research method used to meet the specified objectives. It is a systematic way to find out the probable solution. It refers to the various sequential steps (along with rational of each steps) to be adopted by a researcher in studying the problem with certain objectives in view. Thus the research method designed to achieve the objectives of this thesis contains research design, population and sample, data collection procedure, tools for analysis and methods of analysis and presentations.

3.1. Research Design

This study has attempted to analyze the present role and contribution of VAT in total revenue, tax revenue and GDP in Nepal. Descriptive research design is used to analyze and interpretation of data.

3.2. Nature and Sources of Data

Mainly, secondary data were collected in order to achieve the real and factual result out of this research. The secondary data were collected through annual reports of IRD, Economic Survey of NRB, different books and publications. The sources and data collection procedure is explained below.

a. Published and unpublished reports, articles and dissertations on the concerned subject.

b. Annual report of Inland Revenue Department (IRD)

c. Economic Survey of Nepal Rastra Bank.

d. Budget Speeches of Ministry of Finance, the Government of Nepal.

e. Websites

After collecting the data through secondary sources they have been tabulated in different ways according to the requirements of the study.

3.3. Procedure of Presentation and Analysis of Data

In this study only secondary data are used. They were first processed for tabulation for analysis. Statistical tools as following were used in order to get the meaningful result.

a. Simple Average:

$$= \frac{X}{n}$$

b. Simple Percentage.

c. Graphs, Charts and Diagrams.

d. Trend analysis:

Y= a + bx

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

The fourth chapter contains presentation and analysis of data used in the study. In this chapter the secondary data collected from various sources have been presented in a systematic format: such as tables, charts, and figures. These collected data have been analyzed by using different mathematical, statistical and analytical tools. Further, the major findings of the study also have been presented.

4.1. Practices relating to VAT in Nepal.

The history of taxation in Nepal dates back to antiquity. Tax system was informal during early Shah Period; it was bounded by traditional land tax and other fines etc. In Rana period, taxes were levied on agricultural income from forest and mines, business etc. Modern tax system begins with the advent of democracy and manifestation of the first consolidated budget comprising revenues and expenditures of Nepal in 1951. Income tax was introduced from fiscal year 1959/60 and sales tax, contract tax, house and rent tax in 1965/66. In connection with the tax reform government introduced VAT in1997.

Nepal's tax structure is composed of three categories of revenues. These are: (a) direct taxes (b) indirect taxes, and (c) non-tax revenues.

4.1.1 Need for reforms on present tax system in Nepal

The tax reform exercise has been the most important and technically the most exciting component of the reform programmer in the fiscal sector. Arguments put forward in favor of reforms in Nepalese tax system are:-

- To enhance more revenue needs.

- To enable tax administration.
- To fulfill the increasing resource gap.
- To face the problem of continuing and raising difficulties.
- Tax reform is inevitable for liberal and competitive economy.
- To increase productive efficiency.

There is a global trend of tax reforms. In this way there were as many as twenty five-tax reform programmers between 1984-1990 in major Asian developing countries also and this trend continued in Latin America, Europe and Asia from 1990-1995 (Fiscal issue no. 4 IRET Washington DC 1984, page 173).

4.1.2 VAT as a tax reformer in Nepal

VAT is levied on all goods and services except specially exempt by the law and collected at each stage in the process of production and distribution, its base is very wide. Besides, as VAT makes smuggling and under valuation more difficult, there is less possibility for revenue leakage under this tax than particularly under the taxes collected only at a source. As a result, VAT is considered as a buoyant, elastic and sustainable source of revenue. Due to this characteristic of VAT Nepal has implemented it to generate more revenue.

As described in the Chapter-II, VAT has come in Nepal as an agent for tax reform. Donors like DANIDA, USAID, GTZ etc. gave assistance in the formulating of VAT system in Nepal. At the time of the implementation of VAT, there was tax administrative reform was also taking place like establishment of IRD.

4.1.3 Registration

Any individual is it natural person or organization, whose annual turnover is more than 2 million, must be incorporated into VAT system. They should be registered in the concerned VAT authority. All tax payers whose taxable transaction stands above Rs. 2 million are compulsorily required to register for VAT.

Table 4.1

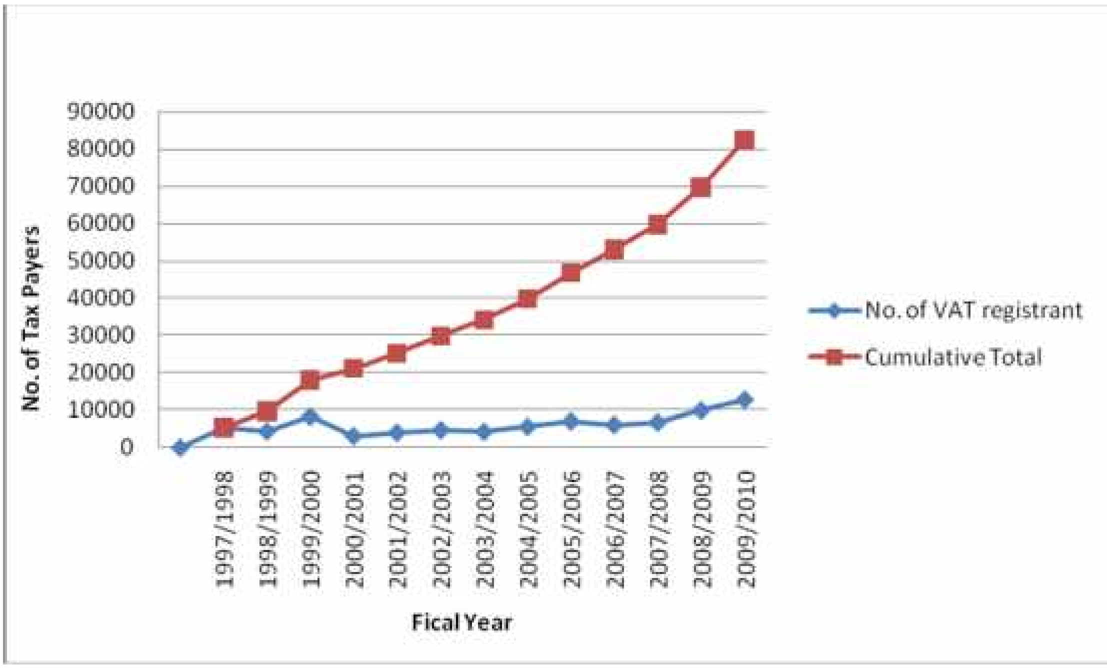
Year-wise number of VAT Registrants

Fiscal Year	No. of VAT registrant	Cumulative Total	Rate of Increase (%)
1997/1998	5237	5237	-
1998/1999	4405	9642	84.11
1999/2000	8305	17947	86.13
2000/2001	3146	21093	17.53
2001/2002	4056	25149	19.23
2002/2003	4723	29872	18.78
2003/2004	4302	34174	14.40
2004/2005	5602	39776	16.39
2005/2006	7055	46831	17.74
2006/2007	6134	52965	13.10
2007/2008	6742	59707	12.73
2008/2009	9946	69653	16.66
2009/2010	12780	82433	18.35

Source: Annual Report 2006/2007, 2007/2008, 2008/2009, 2009/2010, Inland Revenue Department.

Figure 4.1

Trend of VAT Registration



The member of VAT registrants increased gradually. The number of registrants was 5237 at the time of the introduction of VAT in 1997. In the year 1998/99 new tax payers registered were 4405 and the total tax payers increased to 9642 by 84.11%. The growth rate of VAT registration remained at a high level in the fiscal year 1999/2000 at about 86.13%. Both voluntarily and compulsorily, the business communities came under VAT flag because there is a legal provision in the VAT law that the government bodies are required to buy only from the VAT registrants in case of their purchases exceeding certain amount. The percentage is on the decreasing trend after the FY 2005/2006 finally ending up at 18.35% in the fiscal year 2009/2010.

The table below shows the tax payers' trend of cancelling registration from VAT.

Table 4.2

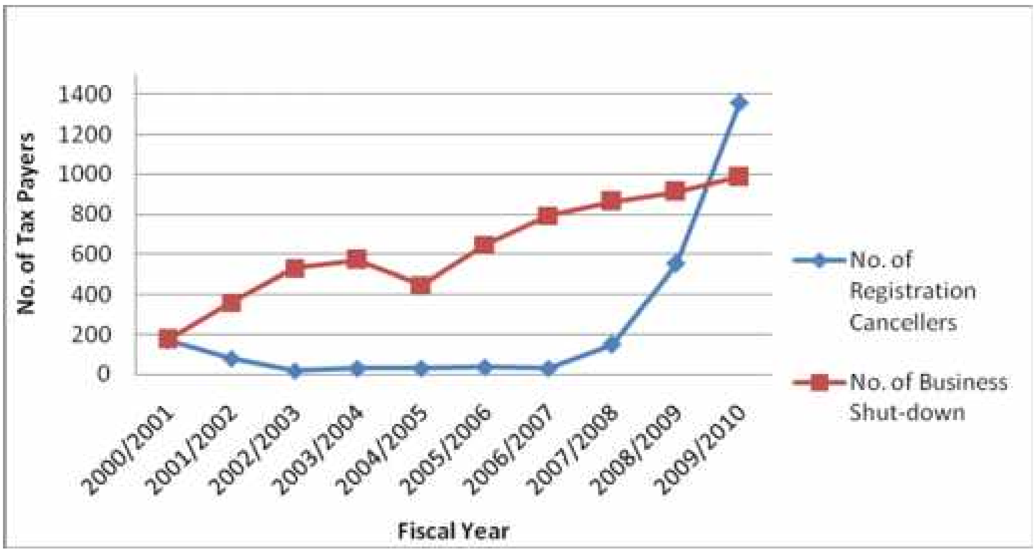
Year-wise number of VAT Cancellation

Fiscal Year	No. of Registration Cancellers	No. of Business Shut-down
2000/2001	170	172
2001/2002	80	360
2002/2003	18	531
2003/2004	30	570
2004/2005	30	445
2005/2006	36	647
2006/2007	31	793
2007/2008	150	863
2008/2009	553	912
2009/2010	1361	987

Source: Annual Report 2006/2007, 2007/2008, 2008/2009, 2009/2010, Inland Revenue Department.

Figure 4.2

Trend of Registration Cancellation



The above table and chart depict the data from the fiscal year 2000/2001 to 2007/2008. In the fiscal year 2000/2001 the hugest number of registrants cancels the registration i.e. 170. In the fiscal year 2002/2003, the cancellation decreased even significantly. The trend stood almost constant from the fiscal years 2002/2003 to 2006/2007. But in the year 2007/2008 it again increased and reached the no. of 150. Likewise, the no. of business shut-down is also increasing yearly ending with the no. 987 in the FY 2009/10.

4.1.4 Non-Filers

After 25 days of completion of the tax period all the registrants are required to submit their tax return no matter whether any transaction takes place within that period or not. It is necessary to submit the tax return within the specified time. The no. of registrants who fail to submit their tax return in each fiscal year from 2000/2001 to 2007/2008 are given below:

Table 4.3

Year-wise number of Non filers

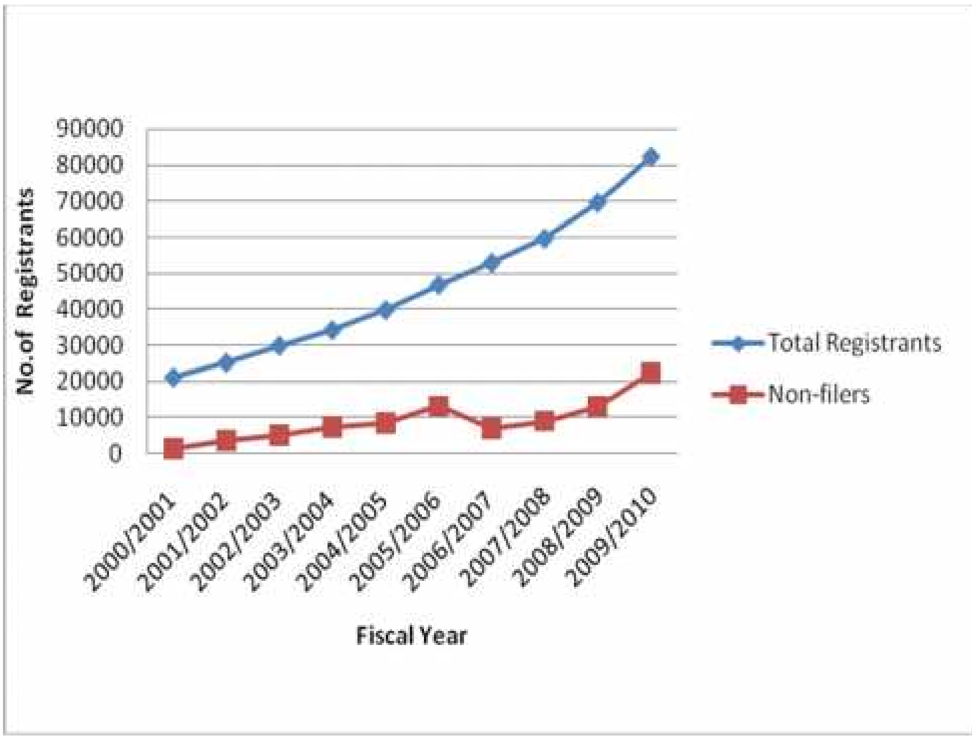
Fiscal Year	Total Registrants	Non-filers	Percentage
2000/2001	21093	1383	6.72
2001/2002	25149	3676	15.18
2002/2003	29872	5255	17.59
2003/2004	34174	7322	21.43
2004/2005	39776	8492	22.96
2005/2006	46831	13198	21.63
2006/2007	52965	7098	14.58
2007/2008	59707	9050	16.66
2008/2009	69653	13040	18.73

2009/2010	82433	22341	27.11

Source: Annual Report 2006/2007, 2007/2008, 2008/2009, 2009/2010, Inland Revenue Department.

Figure 4.3

Status of Non-Filers



The status of Non-filers was in increasing trend from the fiscal years 2000/2001 to 2005/2006. After that it is in declining trend. In the fiscal year 2000/2001, only 4 percent failed to submit the tax return. But this trend was on the increase in each subsequent year until the fiscal year 2005/2006. In 2006/2007, the trend once again declined showing a significant check on taxpayers' habit of not submitting the tax return. On the other hand, it foretells a good sign for the future trend as well because it is said that the morning shows the day but after from the fiscal year 2008/2009 the status of Non-Filers starts in increasing trend and it's because of the political instability of the country.

4.1.5 Tax Returns

Tax Return means a return furnished by a Taxpayer in regard to the tax payable for transactions carried out during the Tax Period. Tax Return facilitates the forecasting of the amount of potential tax collection. Tax return includes debit, credit and nil tax return. Debit return implies the return which the tax payer furnishes declaring to pay tax. Debit return in a favorable position shows the output tax exceeding input tax credit. Credit return is just opposite of debit return. If input tax is greater than output tax, the possibility of credit return is realized. As the credit return increases the liability to refund also increases. So, debit return is favorable for the government. If there is no transaction during the particular tax period, then it is nil or zero return. The status of tax return is depicted in Table 6.

Table 4.4

Status of Tax Returns

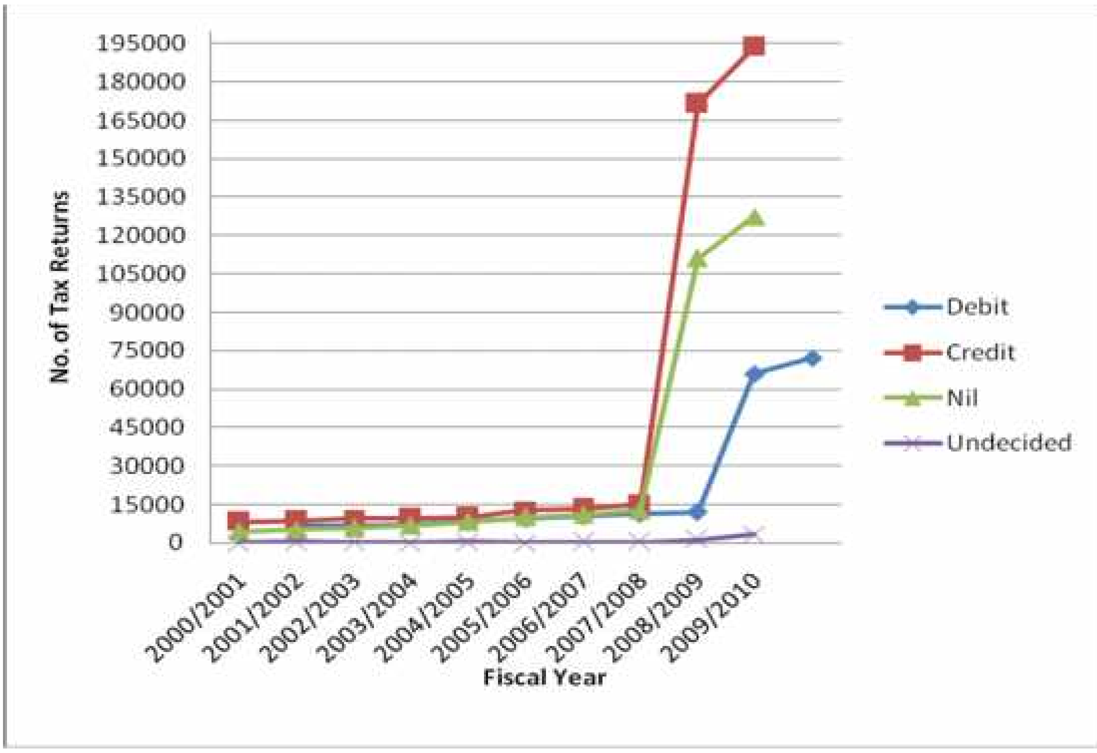
Fiscal Year	Debit		Credit		Nil		Undecided		Total
	No.	%	No.	%	No.	%	No.	%	
2000/2001	6975	35.39	8250	41.86	4471	22.68	14	0.07	19710
2001/2002	6936	32.30	8844	41.19	5207	24.25	486	2.26	21473
2002/2003	7178	31.06	9553	41.36	5972	25.85	396	1.72	23099
2003/2004	8483	33.87	9625	38.42	6783	27.08	158	0.63	25059
2004/2005	9478	32.20	10260	36	8271	29	516	1.8	28525
2005/2006	10449	31.06	12882	38.17	10139	30.14	163	0.4	33633
2006/2007	11457	31.43	13594	37.29	11044	30.29	362	0.99	36457
2007/2008	12052	30.02	15050	37.49	12779	31.83	258	0.64	40139

2008/2009	66044	18.88	171413	49.01	111157	31.78	1197	0.35	349811
2009/2010	72233	18.22	193519	48.81	127390	32.14	3325	0.84	396467

Source: Annual Report 2006/2007, 2007/2008, 2008/2009, 2009/2010, Inland Revenue Department

Figure 4.4

Status of Tax Returns



It can be observed that credit return is higher than the debit return. In the fiscal year 2000/2001, the ratio of debit return to the total return is 35.39% whereas the credit return stood at 41.86%. From then onwards, the figure just seemed to rise consistently. The nil return in that particular period was 22.68% and the undecided percentage is 0.02. A continuous increase of the credit refund is definitely not a good sign. Higher credits return than the debit return is considered something not so good for the VAT system. Some measures must be taken to tackle this problem.

4.2. Revenue Structure of Nepal

The total revenue of government of Nepal is collected from tax and non-tax sectors. The tax revenue, which is compulsory sacrifice of the peoples, can divide into two components i.e. direct tax and indirect tax. Those revenues collected as income tax, land tax, property tax, etc are direct tax and those revenues collected as sales tax, value added tax (VAT), customs and contract tax etc are an indirect tax. Another sides, the government has received other kinds of revenues, e.g. postal service charge, fees fines and forfeiture etc are non-tax revenues. Non-tax revenue are not imposed specially views of revenue collection. In Nepalese economy amount of tax revenue is generally higher than that of non-tax revenue. In Nepal, the contribution of tax revenue used to be almost 80% and non-tax revenue almost 20%. The structure can see in the Table no. 7.

Table 4.5

Revenue Trend in Nepal **Rs. in million**

Fiscal Year (FS)	Total Revenue (TR)	Tax Revenue (TXR)	Tax Revenue as % of TR	Non-Tax Revenue (NXTR)	Non-tax Revenue as % of TR
1991/1992	13512.60	9875.60	73.08	3637.10	26.92
1992/1993	15148.40	11662.50	76.99	3485.90	23.01
1993/1994	19580.80	15371.50	78.50	4209.40	21.50
1994/1995	24605.10	19660.00	79.90	4945.10	20.10
1995/1996	27893.10	21668.00	77.68	6225.10	22.32
1996/1997	30373.50	24424.30	80.41	5949.20	19.59
1997/1998*	32937.90	25939.80	78.75	6998.10	21.25
1998/1999	37133.80	28752.90	77.43	8380.90	22.57
1999/2000	42893.80	33152.10	77.29	9741.60	22.71

2000/2001	48893.60	38865.10	79.49	10028.8	20.51
2001/2002	50445.50	39330.60	77.97	11115.0	22.03
2002/2003	56229.80	42586.90	75.74	13642.7	24.26
2003/2004	62331.00	48173.00	77.29	14158.0	22.71
2004/2005	70122.70	54104.70	77.16	16018.0	22.84
2005/2006	72282.10	57430.40	79.45	14851.7	20.55
2006/2007	87712.08	71126.73	81.09	16585.35	18.91
2007/2008	107622.50	85155.40	79.12	22467.10	20.88
2008/2009	143474.50	111092.37	77.43	22892.17	15.96
2009/2010	179945.82	152292.94	86.64	23650.90	13.15

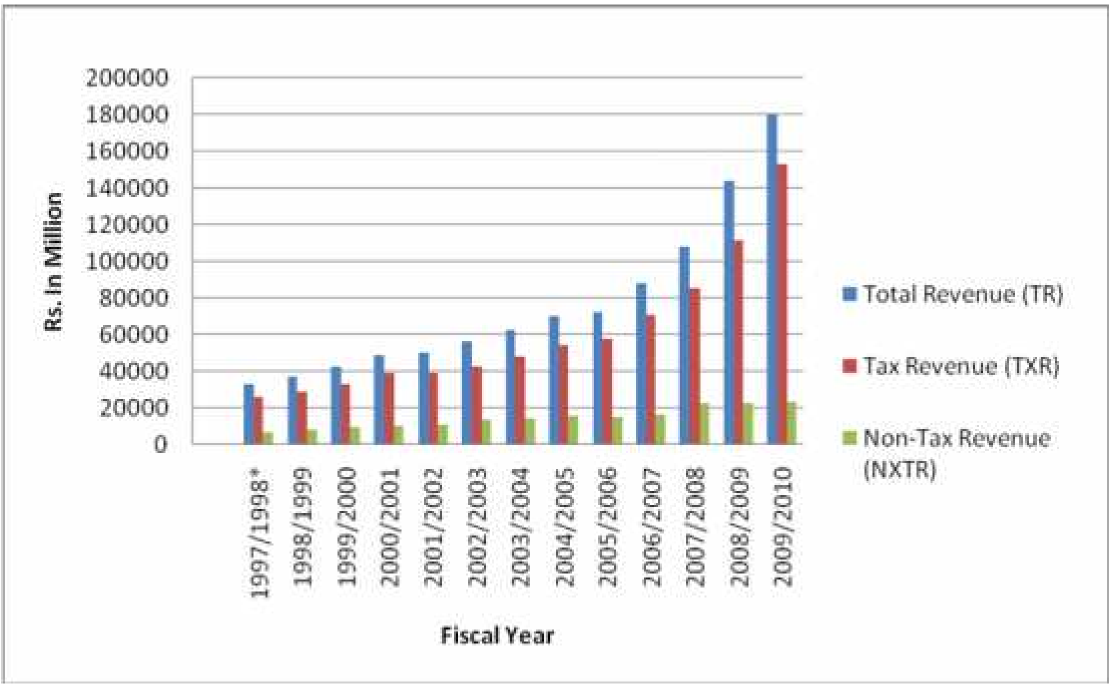
Source: Annual Report 2006/2007, 2007/2008, 2008/2009, 2009/2010, Inland Revenue Department.

Economic Survey 2006/2007, 2007/2008, 2008/2009, 2009/2010, Ministry of Finance.

The above table demonstrates the structures of total revenue of the government before and after implementation of VAT. The contribution of tax revenue on total revenue in the year 1991/92 is 73.08%. This slightly increased up to the year 1996/97 except in the year 1995/96. In the year 1996/97 it reached to 80.41%. On the other hand, the contribution of non-tax revenue on total revenue is 26.92% in 1991/92, which kept decreasing until it reached to 19.59% in the year 1996/97. It proves that tax revenue was in increasing order and non-tax revenue is in decreasing order before and after the implementation of VAT respectively. But after the implementation of VAT in the year 1997/98 the contribution of tax revenue come down to 78.75% and does not cross 80% in any year afterwards. Which proves that tax revenue increased in amount where it does not lead to the proportionate increasing scenario. On the other hand, the contribution of non-tax revenue increased to 21.25% in the year 1997/98 and after that contribution of non-tax revenue is in fluctuating in nature remaining highest at fiscal year 2002/2003. But in the fiscal year 2006/07 tax revenue exceeded 80%, and in the fiscal year 2009/2010 tax revenue exceeded to 86% which must be considered a good sign in the tax revenue collection following the implementation of VAT. But overall all judging the figures presented in the table, no significant changes have occurred so far after the implementation of VAT. This only proves the lack of contribution of VAT to raise tax revenue of the government proportionately which can be presented in figure 5.

Figure 4.5

Revenue Trend in Nepal



4.2.1. Structure of Tax Revenue

Tax is the compulsory levy made to government treasury by public. Tax is levied either directly on income or indirectly on consumption of goods and services. Indirect tax is collected mainly from customs and the consumption of goods and services. Supremacy of tax user of indirect tax is one of the important features of the developing economies. The propensity to consumption is higher in developing countries due to their marginal income. The insignificant level of saving, marginal results in to the poor level of the collection of direct tax. The heavy reliance on indirect taxation in Nepal is justified on the administrative ground.

Nepal is not in a condition to generate adequate revenue from direct taxation. Agriculture is the main occupation of the Nepalese people. The industrial development is very primitive in Nepal. It contributes only about 10% in the GDP. The per capita income of Nepalese people is extremely low. In Nepalese economy the contribution of direct tax ix very low, it is almost 25% of total tax and contribution of indirect tax is remarkably higher than direct tax it is almost 75% of total tax revenue. The table below shows the structure of total tax revenue.

Table 4.6

***Structure of Total Tax Revenue* Rs. in million**

Fiscal Year (FS)	**Total Tax Revenue (TXR)**	**Direct Tax**		**Indirect Tax**	
		Amount	**% of Total Revenue**	**Amount**	**% of Total Revenue**
1991/1992	9875.60	1595.20	16.15	8280.40	83.85
1992/1993	11662.50	2036.20	17.46	9626.30	82.54
1993/1994	15371.50	2855.30	18.58	12516.20	81.42
1994/1995	19660.00	3849.30	19.58	15810.70	80.42
1995/1996	21668.00	4655.90	21.49	17012.10	78.51
1996/1997	24424.30	5340.00	21.86	19084.30	78.14
1997/1998*	25939.80	6187.90	23.85	19751.90	76.15
1998/1999	28752.90	7516.10	26.14	21236.80	73.86

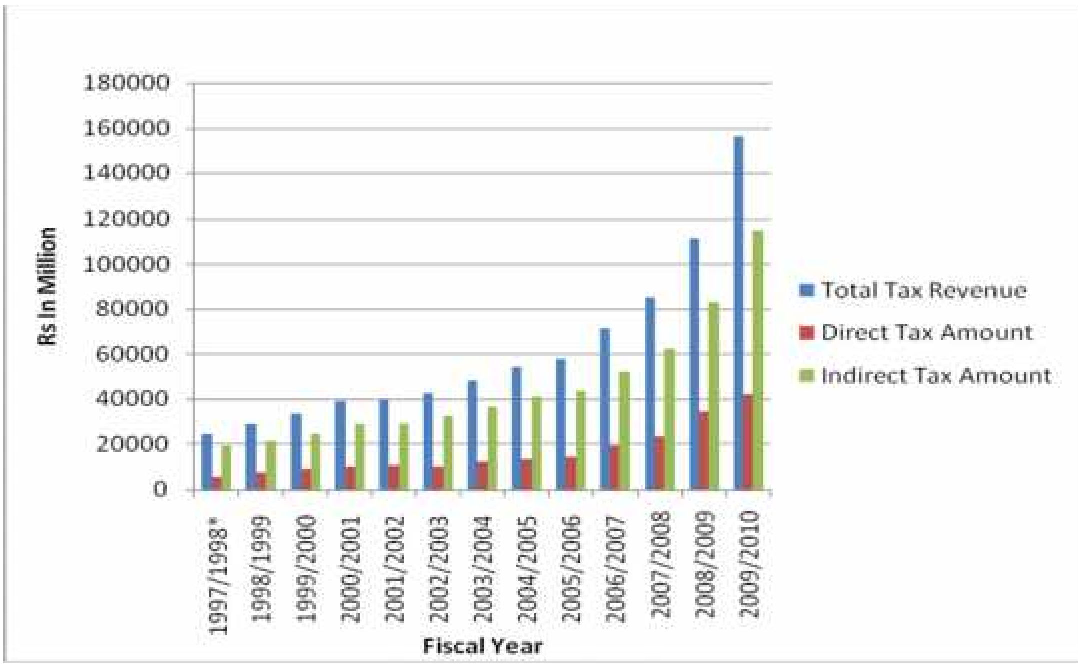
1999/2000	33152.10	8951.50	27.00	24200.60	73.00
2000/2001	38865.10	10159.40	26.14	28705.70	73.86
2001/2002	39330.60	10597.50	26.94	28733.10	73.06
2002/2003	42586.90	10105.70	23.73	32481.20	76.27
2003/2004	48173.00	11912.6	24.73	36260.4	75.27
2004/2005	54104.70	13071.8	24.16	41032.9	75.84
2005/2006	57430.40	13968.1	24.32	43462.3	75.68
2006/2007	71126.73	18980.29	26.69	52146.44	73.31
2007/2008	85155.40	23087.70	27.11	62067.70	72.89
2008/2009	111092.37	34320.74	30.90	82731.17	74.47
2009/2010	156294.92	41750.18	27.42	114544.75	75.55

Source: Annual 2006/2007, 2007/2008, 2008/2009, 2009/2010, Inland Revenue Department.

Economic Survey 2006/2007, 2007/2008, 2008/2009, 2009/2010, MOF.

Figure 4.6

Structure of Tax Revenue



The data shows that, the contribution of direct tax revenue in the year 1997/98 is 23.8.5%. It gradually increased and reached to 27% in the year 1999/2000 and thereafter slightly decreased but from the fiscal year 2005/2006 it starts gaining some momentum. In the fiscal year 2008/2009 the contribution of direct tax is in highest level nearing to 31% On the other hand contribution of indirect tax revenue is also in decreasing order. It is said that implementation of VAT helps to collect more revenue. It also helps to collect more income tax and other direct taxes due to its transparency characteristics. This claim comes to true as in the fiscal year 2007/2008 it had started picking up once again.

4.3. Revenue Collection from VAT

Actual collection of VAT from the fiscal year 2000/2001 to 2009/2010 has been shown in table below.

Table 4.7

Revenue collection from VAT

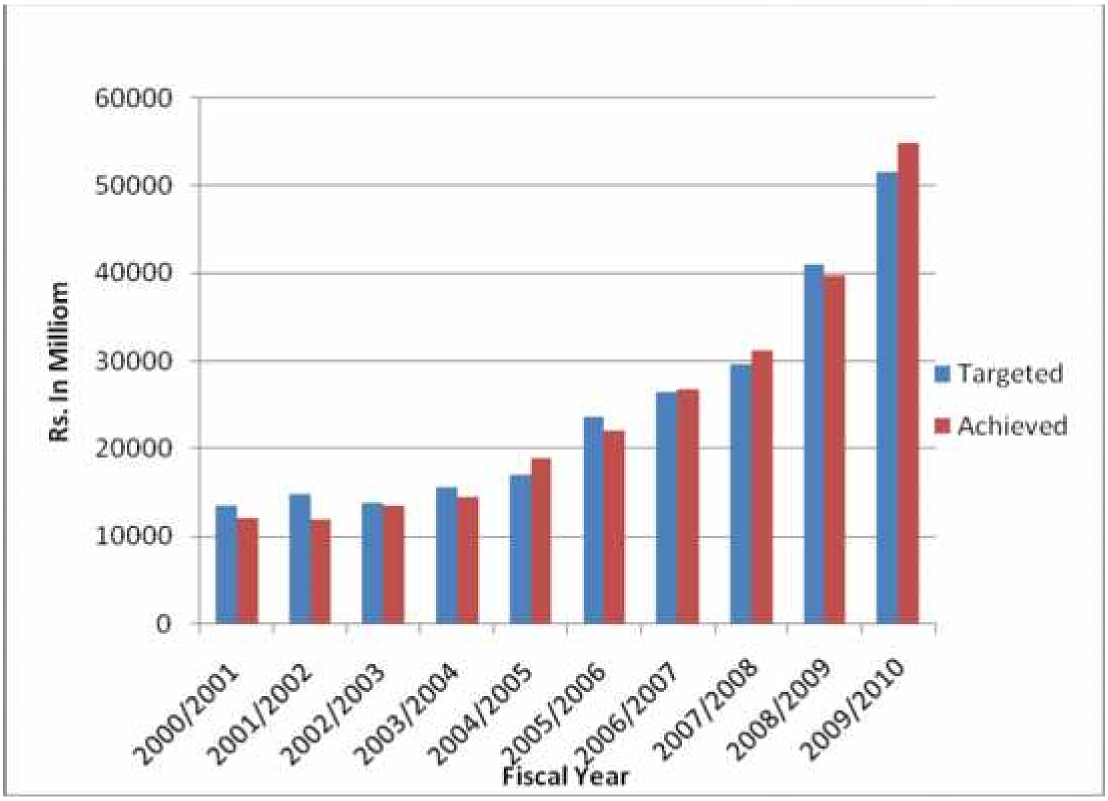
(Rs. in million)

Fiscal Year	Targeted	Achieved	% Change
2000/2001	13500.00	12050.00	-10.74
2001/2002	14750.00	11947.95	-19.00
2002/2003	13730.05	13449.12	-2.05
2003/2004	15503.50	14448.89	-6.80
2004/2005	16950.00	18894.63	11.47
2005/2006	23650.00	21946.01	-7.21
2006/2007	26463.00	26704.18	0.91
2007/2008	29533.00	31154.63	5.49
2008/2009	41000.00	39700.92	-3.16
2009/2010	51560.00	54920.85	6.51

Source: Annual Report 2006/2007, 2007/2008, 2008/2009, 2009/2010, Inland Revenue Department.

Figure 4.7

Revenue Collection from VAT



In the fiscal year 2001/02 achieved VAT was Rs. 11947.95 million whereas targeted was Rs. 14750.00 million which is 38% less than targeted. However, by small margin of 2% only differ between targeted and achieved in the fiscal year 2002/03. In the fiscal year 2004/05, the revenue actually collected even exceeded the targeted one. In figure, the targeted revenue for that period was Rs. 16950 million where as the collected revenue amounted to Rs. 18894.63, i.e. 11% more than the targeted one. But the boom period in revenue collection was to soon be followed by the depression when the 11% increase went far down to -7 in the fiscal year 2005/06 with the targeted revenue Rs. 23650 million and the actual collection only amounting to Rs. 21996 million. This trend seems to be improved again in the following fiscal year 2006/07 when the actual revenue marginally exceeded the targeted one by 1 percent. In the next year the collection was 5.49% more than the target. The change in the revenue collection was triggered partially by the major change in the After the political scenario changed after people's movement part 2 on April 2005, but in the fiscal year 2008/2009 where targeted revenue was not achieved due to political instability in the country than after in fiscal year 2009/2010 the collection was 6.51% more than the target. It can be seen in the figure above, the trend of revenue collection is increasing.

4.3.1. Composition of VAT Revenue

Nepalese economy is agricultural based. More than 60% people are farmer and the farming is unorganized. But in Nepal it is exempted from VAT. Thus import generates more VAT revenue than domestically produced goods and services. VAT is levied on both domestically produced goods and services and imported goods and services. The composition of VAT revenue collection from imports and exports are shown in a table below.

Table 4.8

Composition of VAT Revenue **(Rs. in million)**

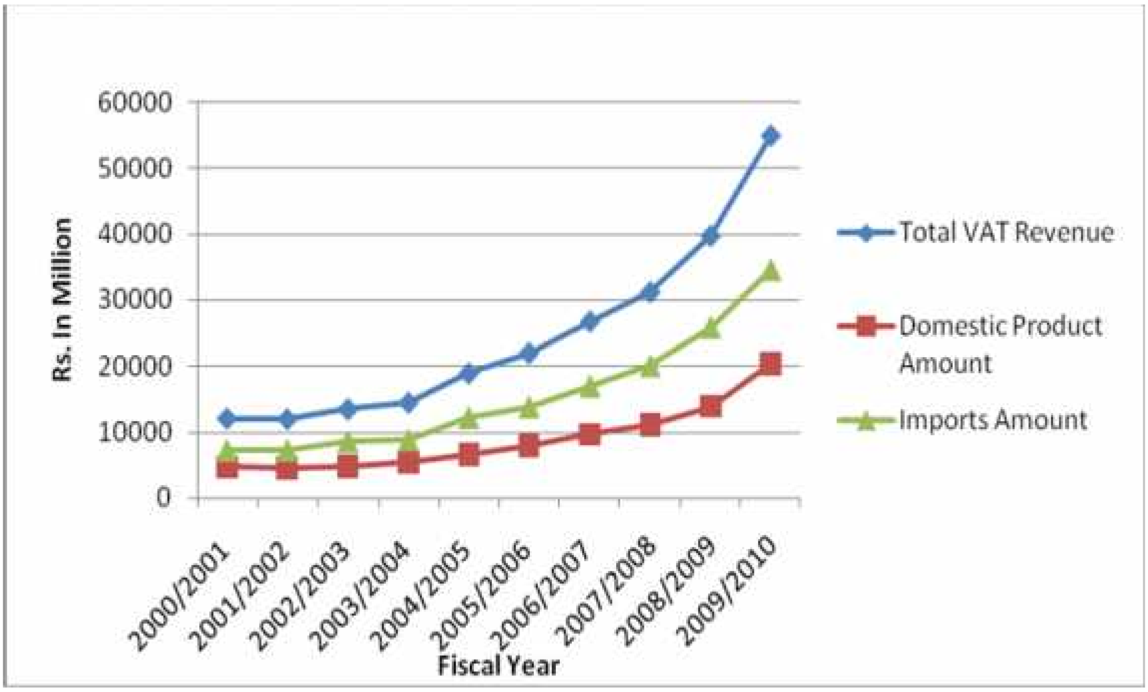
Fiscal Year	**Total VAT Revenue**	**Domestic Product**		**Imports**	
		Amount	%	**Amount**	%
2000/2001	12050.00	4744.72	39.38	7303.04	60.61
2001/2002	11947.95	4608.37	38.57	7339.58	61.43
2002/2003	13449.12	4819.61	35.84	8629.51	64.16
2003/2004	14448.89	5604.12	38.79	8874.77	61.42
2004/2005	18894.63	6624.33	35.06	12270.29	64.94
2005/2006	21946.01	8057.43	36.71	13888.58	63.29
2006/2007	26704.18	9689.98	36.29	17014.20	63.71

2007/2008	31154.63	11109.74	35.66	20044.89	64.34
2008/2009	39700.92	13918.49	35.06	25842.43	65.09
2009/2010	54920.85	20379.83	37.10	34541.02	62.89

Source: Annual Report 2006/2007, 2007/2008, 2008/2009, 2009/2010, Inland Revenue Department.

Figure 4.8

Composition of VAT Revenue



In fiscal year 2000/01, share of domestic and imported VAT revenue in total revenue was 39.38% and 60.61% respectively. In the fiscal year 2007/08, domestic products contributed 35.66% whereas imported goods contributed 64.34% in the total VAT revenue. But in fiscal year 2009/2010 share of VAT from domestic is increase to 37.10% and share of VAT from imports decreased to 62.89% from the preceding year It is observed that collection from imports share about two-third and collection from domestic source occupies one-third only in Nepalese VAT structure.

4.3.2. Share of VAT Revenue to Gross Domestic Product (GDP)

Total final output of goods and services produced by the country's territory by residents and non-residents, regardless of its collection between domestic and foreign claims is called GDP. The ratio between these two measures the consistency of the growth of VAT revenue. It indicates the utilization of taxable capacity. For the rapid economic development of a country, the growth of VAT revenue mobilization in line with the growth in GDP is desirable. Since, the collection of VAT revenue is more reliable than the direct tax revenue; it will facilitate the process of economic planning and development in the country. The contribution of VAT revenue in GDP is shown below.

Table 4.9

VAT Revenue as percentage of GDP

(Rs. in million)

Fiscal Year	GDP*	VAT Revenue	% of GDP
2000/2001	413428.70	12050.00	2.91
2001/2002	430396.60	11947.95	2.78
2002/2003	460325.30	13449.12	2.92
2003/2004	500699.10	14448.89	2.89
2004/2005	548484.70	18894.63	3.44
2005/2006	611088.50	21946.01	3.59
2006/2007	675484.00	26704.18	3.95
2007/2008	820814.00	31154.63	3.80
2008/2009	992012.00	39700.92	4.01
2009/2010	1182680.00	54920.85	4.65
Average	557030.49	24521.72	3.49

Source: Economic Surveys 2006/2007, 2007/2008, 2008/2009, 2009/2010, MOF.

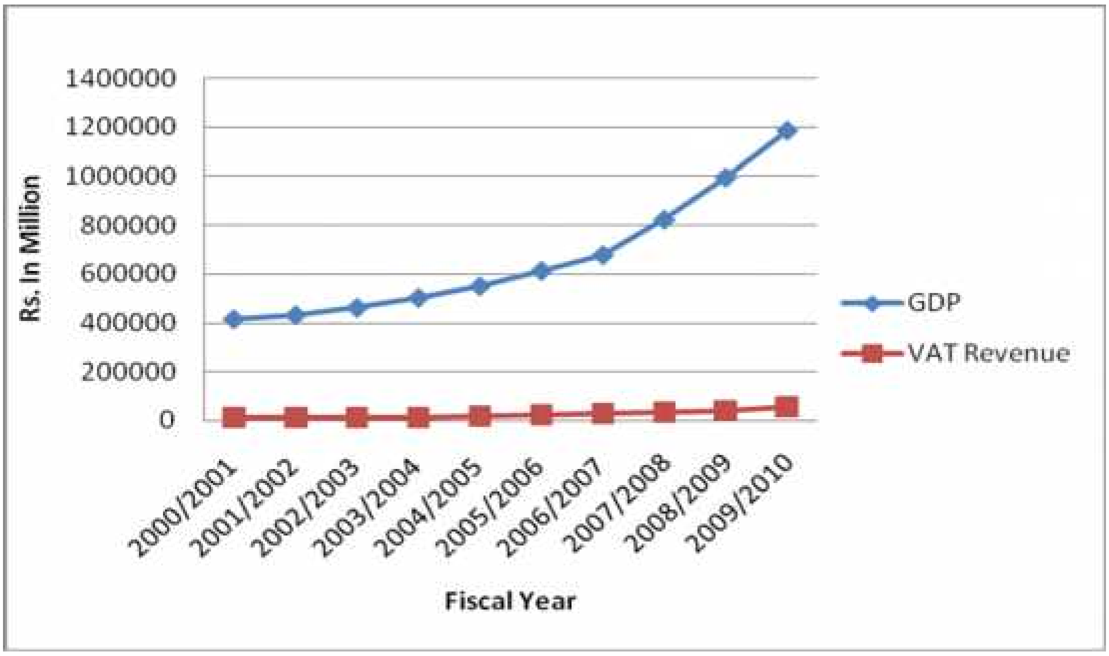
Macroeconomic Indicators of Nepal 2010.

Economic Reports 2007/2008, 2008/2009, 2009/2010, NRB, Kathmandu.

*Gross Domestic Product at current price

Figure 4.9

Share of VAT Revenue in GDP



In fiscal year 2000/2001, total amount Rs. 12050 million was collected as VAT which was only 2.91% of GDP .Above table reveals that share of VAT revenue in GDP is 3.49% in an average through the analysis period. The contribution made through VAT in GDP is very low. However, the percentage shows the increasing trend except in the final year 2007/8. The highest percentage i.e. 4.65% was recorded in the fiscal year 2009/2010 with VAT revenue amounting to 54920.85. Finally, it can be observed that the contribution of VAT to GDP is comparatively low.

4.3.3. Share of VAT Revenue in Total Revenue

Total Revenue includes Tax revenue and non-tax revenue. The contribution of VAT revenue to the total revenue has been shown in the Table below.

Table 4.10

VAT Revenue as percentage of Total Revenue

(Rs. in million)

Fiscal Year	**Total Revenue**	**VAT Revenue**	**% of Total Revenue**
2000/2001	48893.9	12050.00	24.65
2001/2002	50445.6	11947.95	23.68
2002/2003	56229.7	13449.12	23.92
2003/2004	62331.0	14448.89	23.18
2004/2005	70122.7	18894.63	26.95
2005/2006	72282.1	21946.01	30.36
2006/2007	87712.08	26704.18	31.00
2007/2008	107622.50	31154.63	28.95
2008/2009	143474.50	39700.92	27.68
2009/2010	179945.82	54920.85	30.52
Average	87905.99	24521.72	27.90

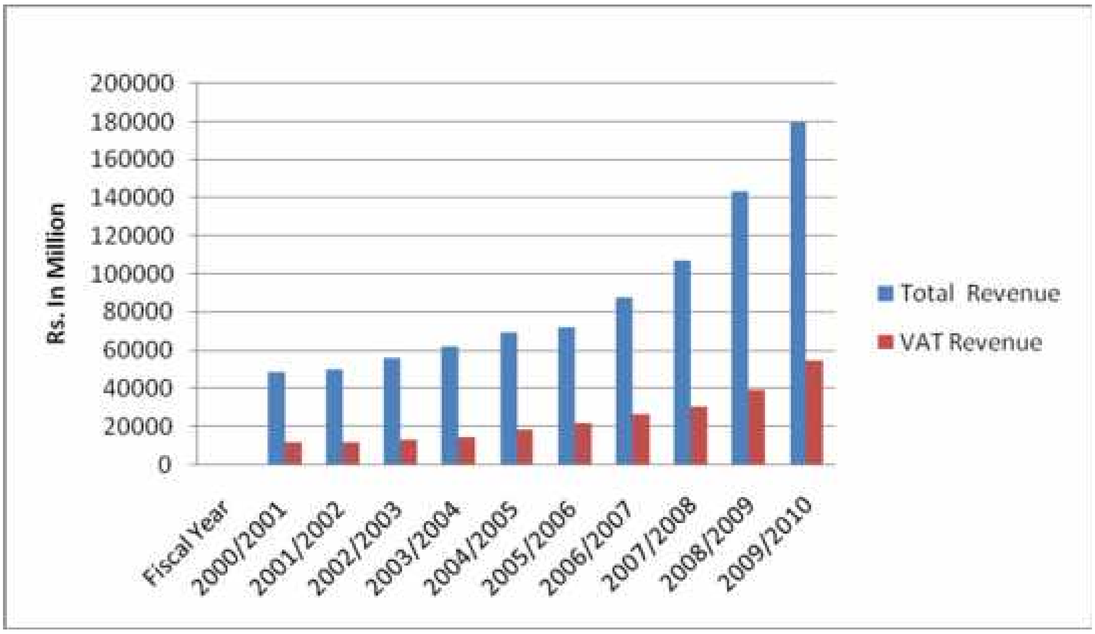
Source: Economic Surveys 2006/2007, 2007/2008, 2008/2009, 2009/2010, MOF.

Annual Report 2006/2007, 2007/2008, 2008/2009, 2009/2010, Inland Revenue Department.

In the fiscal year 2000/2001, its contribution was 24.65, it kept increasing in the following years till 2007/2008 with 31.00%, the highest one. But in the next fiscal year 2007/2008 it reduces to 28.95%. Table reveals that an average contribution of VAT to the total revenue is 27.10. This can be figured out as below:

Figure 4.10

Share of VAT Revenue in Total Revenue



4.3.4. Share of VAT Revenue in Total Tax Revenue

The contribution of VAT revenue to the total tax revenue has been shown in the following table.

Table 14.11

VAT Revenue as % of Total Tax Revenue

(Rs. in million)

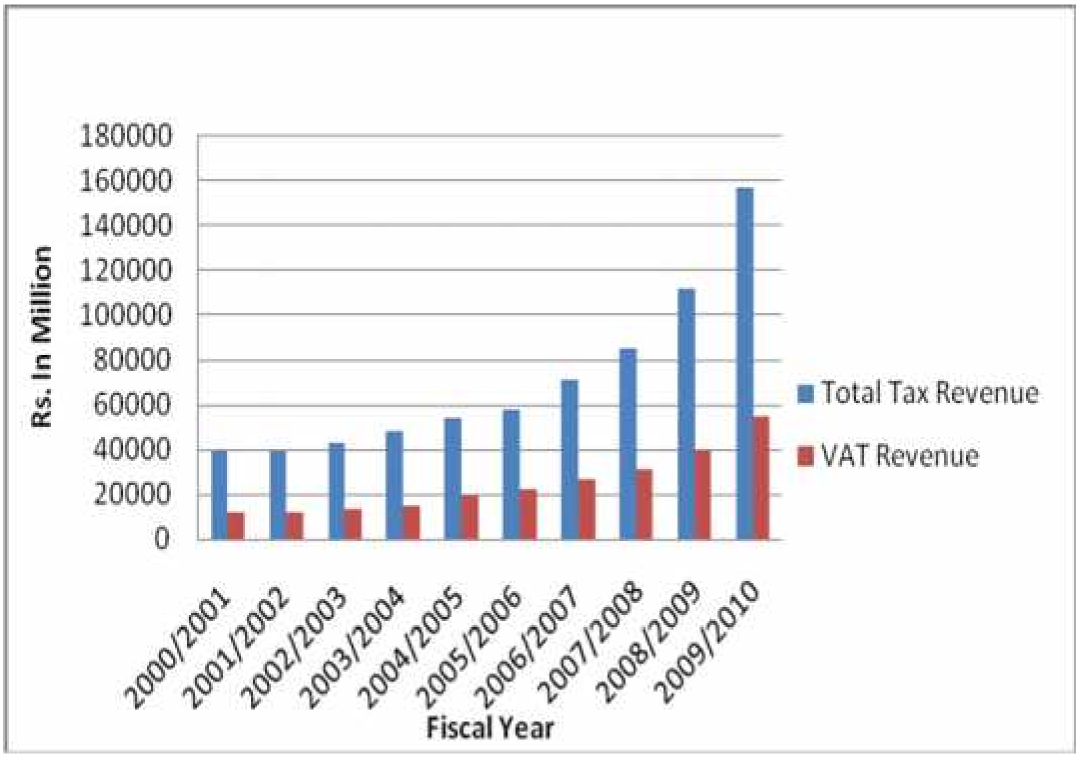
Fiscal Year	**Total Tax Revenue**	**VAT Revenue**	**% of Total Tax Revenue**
2000/2001	38865.10	12050.00	31.00
2001/2002	39330.60	11947.95	30.38
2002/2003	42586.90	13449.12	31.58

2003/2004	48173.00	14448.89	29.99
2004/2005	54104.70	18894.63	34.92
2005/2006	57430.40	21946.01	38.21
2006/2007	71126.73	26704.18	37.54
2007/2008	85155.54	31154.63	36.59
2008/2009	111092.37	39700.92	35.74
2009/2010	156294.92	54920.85	36.07
Average	70416.83	24521.72	34.83

Source: Annual Report 2006/2007, 2007/2008, 2008/2009, 2009/2010 Inland Revenue Department

Figure 4.11

Share of VAT Revenue in Total Tax Revenue



The above table shows that there is high share of VAT In total revenue the contribution of VAT is relatively higher. In the fiscal year 2000/01, the percentage of VAT in total tax revenue is 31% similarly in the fiscal year 2007/08 it was increased to 36.59% which is slightly less from the previous fiscal year 2006.07. The average contribution of VAT to the total revenue is 34.20%. This proves that in Nepalese tax revenue VAT has played a crucial role.

4.4. Time Series Analysis

A time series is an arrangement of statistical data in a chronological order, i.e., in accordance with its time of occurrence. It reflects the dynamic pace of movements of a phenomenon over a period of time. Most of the series relating to Economics, Business and Commerce, e.g., the series relating to prices, production, and consumption of various commodities; agricultural and industrial production, national income and foreign exchange reserves; investments, sales and profits of business houses; bank deposits and bank clearings, prices and dividends of shares in a stock exchange market, etc., are all times series spread over a long period of time. Accordingly, time series have an important and significant place in Business and Economics, and basically most of the statistical techniques for the analysis of time series data have been developed by economists. However, these techniques can also be applied for the study of behavior of any phenomenon collected chronologically over a period of time in any discipline relating to natural and social sciences, though not directly related to economics or business. (Gupta, 2004)

The Least Square Method is employed here to measure the trend for further prediction of the GDP and VAT revenue for the next five years from the fiscal years 2010-2011 to 2014-2013. It is to be found out that whether there may be increase in the VAT/GDP ratio from the current average of 3.49%, given the same trend. The parameter of time series analysis for the further prediction of GDP and VAT revenue, a and b, where a is the Y interception or the computed trend figure of y variable when X = 0 and b represent the slop of the trend line or the amount of change in Y variable that is associated with a changeable of one unit in x variable. The x variable in time series represents time and Y represents GDP and VAT revenue.

For predicting the amount of VAT Revenue, we can compute the parameter as follow for the analysis.

FY	t	VAT Revenue (y)	x= t-mid value (i.e. t-5.5)	xy	x^2
2000/01	1	12050.00	-4.5	-54225.00	20.25
2001/02	2	11947.95	-3.5	-41817.83	12.25
2002/03	3	13449.12	-2.5	-33622.80	6.25
2003/04	4	14448.89	-1.5	-21673.34	2.25
2004/05	5	18894.63	-0.5	-9447.32	0.25
2005/06	6	21946.01	0.5	10973.01	0.25
2006/07	7	26704.18	1.5	40056.27	2.25
2007/08	8	31154.63	2.5	77886.58	6.25
2008/09	9	39700.92	3.5	138953.22	12.25
2009/10	10	54920.85	4.5	247143.83	20.25
	n=10	$\sum y=245217.18$	$\sum x=0$	$\sum xy=354226.62$	$\sum x^2=82.50$

Here, n is even i.e. 10. So, we take the mid-value of year 5 and 6.We can calculate is as $\frac{(5\Gamma 6)}{2}$ X5.5

$$a = \frac{y}{n} = \frac{245217.18}{10} X 24521.72$$

$$b = \frac{xy}{x^2} X \frac{354226.62}{82.50} X 4293.65$$

Thus the trend line of dependent variable VAT Revenue and independent variable time (i.e. year)

VAT Revenue (Y_t) $= a + bx$

$= 24521.72 + 4293.65\ x$

From the above computed values of a and b, now, we can estimate the values of VAT revenue in the following years.

Table no 4.12

Projected Value of VAT Revenue Rs. in Million

Year	Projected VAT Revenue
2010/11	48136.80
2011/12	52430.45
2012/13	56724.10
2013/14	61017.74
2014/15	65311.39

Similarly, for predicting the GDP, parameters of the analysis is computed as follows:

FY	t	GDP (y)	x=t-mid value (i.e. t-4.5)	xy	x^2
2000/01	1	413428.70	-4.5	-1860429.15	20.25

2001/02	2	430396.60	-3.5	-1506388.10	12.25
2002/03	3	460325.30	-2.5	-1150813.25	6.25
2003/04	4	500699.10	-1.5	-751048.65	2.25
2004/05	5	548484.70	-0.5	-274242.35	0.25
2005/06	6	611088.50	0.5	305544.25	0.25
2006/07	7	675484.00	1.5	1013226.00	2.25
2007/08	8	820814.00	2.5	2052035.00	6.25
2008/09	9	991316.00	3.5	3469606.00	12.25
2009/10	10	1182680.00	4.5	5322060.00	20.25
	n=10	$\sum y=$ 6634716.90	$\sum x=0$	$\sum xy=6619549.75$	$\sum x^2=82.50$

Here, n is even i.e. 10. So, we take the mid-value of year 5 and 5.We can calculate is as $\frac{(5 \Gamma 6)}{2}$ X5.5

$$a = \frac{y}{n} = \frac{6634716.90}{10} X663471.70$$

$$b = \frac{xy}{x^2} X\frac{6619549.75}{82.5} X80236.97$$

Thus the trend line of dependent variable GDP and independent variable time (i.e. year)

is: GDP (Y_t) = a + bx

= 663471.70+ 80236.97 x

From the above computed values of a and b, now, we can estimate the values of GDP in the following years.

Table no 4.13

Projected Value of GDP Rs. in Million

Year	Projected GDP
2010/11	1104775.04
2011/12	1185012.01
2012/13	1265248.98
2013/14	1345485.95
2014/15	1425722.92

Predicted amount of GDP and VAT revenue, computed for the period 2010/2011 to 2014-2015 is presented in the table below.

Table 4.14

Predicted GDP and VAT Revenue

(Rs. in million)

Fiscal Year	2010/11	2010/11	2010/11	2010/11	2010/11
GDP	1104775.04	1185012.01	1265248.98	1345485.95	1425722.92
VAT	48136.80	52430.45	56724.10	61017.74	65311.39
VAT/GDP (%)	4.22	4.43	4.49	4.54	4.58

Time series analysis shows that VAT/GDP ratio will increase at very nominal rate.

4.5 Major Findings of the study

On the basis of preceding chapters and data presentation and analysis, some important findings of the research are presented in summary as follows:

- The VAT was introduced on November 16, 1997 in Nepal.

- VAT replaces the old sales tax, contract tax, hotel tax and entertainment tax. It has been designed to collect the same revenue as the four taxes it replaced.

- Till the date of 29th of Poush 2061 the rate of VAT was 10%. The government increased the rate to 13% from Magh 1, 2061 BS.

- Collecting the revenues from VAT is the responsibility of Inland Revenue Department (IRD).

- The VAT system is governed by the Value Added Tax Act, 2052 and Value Added Tax Rules, 2053 which are being amended by the government in time to time.

- Currently there are 49 different offices of IRD which collects the revenues in all over the country.

- Value Added Tax is collected at every stage of production and distribution of any goods and services except some provision for exempted goods and services.

- VAT Registration is required for any business whose with annual taxable sales of more than Rs. 20,00,000. However, all firms conducting business in Metropolitan, Sub-Metropolitans or Municipalities related to hardware, sanitary, furniture, fixture, furnishing, electrical and marble should be compulsory registered in VAT office.

- A firm registered with the VAT Office may claim credit on tax paid on inputs / purchases.

- The VAT Act, Schedule some imports items which are tax-exempt. Some of these include: prescription drugs, basic groceries, medical devices and agricultural products. Most imports, however, are fully taxable at the time of importation.

- The VAT on imported goods is collected by Customs. It is calculated on the duty paid value of the goods. The value for the duty of the goods is determined in accordance with the valuation provisions contained in the Customs Act.

- The obligations of VAT registrants are required to pay VAT on or before the 25th day following the end of each month, provide their customers with a tax invoice, maintain records, keep their VAT records for a period of 6 years ,advise the VAT Office of changes to the business such a new address, telephone number or a reorganization of a partnership ,post their Certificate of Registration where customers may observe it, and allow tax officers to enter the business to examine the business records and the stock on hand.

- Tax Officers may grant permission for a VAT registrant to issue an abbreviated invoice for retail sales below the value of Rs. 5000. An abbreviated invoice does not require the name and address of the purchaser.

- A registrant will make his VAT payment at a bank where he will receive a voucher number as proof of payment. This number is to be entered on his VAT return and submitted within 25 days of the end of the proceeding month.

- In Nepal the amount of tax revenue is higher than that of non-tax revenue. In the fiscal year 2009/10, percentage of tax revenue to total revenue is 86.64% whereas percentage of non-tax revenue to total revenue is 13.15%

- The contribution of direct tax revenue on total tax revenue is very low than the contribution of indirect tax on it. In the fiscal year 2009/10 the contribution of direct tax is 24.32% and the contribution of indirect tax is 75.68%

- The total no. of tax registrants under the VAT system until the FY 2009/10 is 82,433. In the same year the no. of VAT registration cancellation was 1361.

- The trend of non-filling the tax return is of fluctuating nature. The highest percentage of non-fillers was 27.11% in the FY 2009/10 where the number of non-fillers was 22341 which shows the negative aspect in collection of VAT.

- The trend of credit return is higher than the debit return. In the fiscal year 2009/10 the percentage of debit tax return was 18.22%, credit return was 48.81% and the zero tax return was 32.14% whereas 0.84% was undecided.

- Generally, the targeted VAT revenue is not achieved by the government. Among the data of 10 years from FY 2000/01 to 2009/10 only in the four year i.e. FY 2004/05, 2006/07, 2007/08, 2009/10 the government collected more VAT revenue than the target. The highest amount of VAT was collected in year 2004/05 which was 11.47% more than the targeted.

- The share of VAT revenue from import is far higher than the VAT revenue from domestic product. In the fiscal year 2009/10 the domestic product yield 37.10% of total VAT revenue whereas the share of import was 62.89%

- VAT/GDP ratio is comparatively lower. The average VAT/GDP ratio of 10 years from FY 2000/01 to 2009/10 is 3.49%

- Share of VAT revenue in total revenue is 30.52% in the fiscal year 2009/10. In an average of 10 years it is 27.90%

- Average ratio of VAT revenue to the total tax revenue for the 10 Fiscal Year is 34.83%

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

VAT is introduced in Nepal to generate more revenues by widening and broadening the tax base, since it covers the value added to each commodity by a firm during all stages of production and distribution. From its beginning in 1997 to the current date the VAT system in Nepal as witness different scenario.

In this study I have attempted to analyze the practice of VAT in Nepal, its revenue collection trend for past ten fiscal years. The share of VAT revenue to different tax head is analyzed. Empirical analysis have been done with the help of 10 years data (i.e. from the fiscal year 2000/2001 to 2009/2010). The study has been divided into five broad chapters. This study is divided into five chapters. Prior to the body of the thesis, several pages of preliminary materials such as title page, Viva-voce sheet, Recommendation, Declaration of the researcher, Acknowledgements, Table of contents, List of tables, List of figures and Abbreviations used have been included.

The first chapter is about the introduction which includes general background of the study, brief description about Value Added Tax, statement of the problem, objectives of the study, needs and significance of the study, review of literature and limitations of the study.

The second chapter goes little bit in detail about the concept of the study. It includes the review of related literature which includes concept of Value Added Tax, Historical Background of VAT in Nepal, Legal Provision for VAT and review of related previous studies.

The third chapter focuses on the research methodology. In this chapter, the facts like type of research conducted, research design, how the data are collected, what kinds of data are used for research purpose and how the data processing and analysis is done.

The fourth chapter is presentation and analysis of data used in the study. In this chapter the secondary data collected from various sources have been presented in a systematic format: such as tables, charts, and figures. These collected data have been analyzed by using different mathematical, statistical and analytical tools. Further, the major findings of the study also have been presented.

The fifth and the last chapter is about the facts which are found through the study and conclusion of it. This chapter consists of summary of the major findings of the study, concluding it with major recommendations and suggestions about the VAT in Nepal from revenue perspective.

5.2. Conclusion

Nepal is a developing country. It has to achieve the rapid economic growth and development. For this a large amount of resources is needed to make investment. There is a negative aspect of foreign loan and grant. Therefore, taxation is an important and sustainable source for the government to mobilize high volume of resources for the development purposes and make the economy healthy, efficient and self sufficient to a larger extent.

Tax becomes the main source of revenue of the state. Value Added Tax is the latest innovation in the field of taxation. VAT is considered as the reform tax system of the 21st century, which has already been implemented popularly in more than 135 countries in the world. VAT is multi staged, commodity and services based tax which is levied on the value added of business at different stages of production and distribution. It is imposed on different stages. It imposed on value of goods and services. The value added tax is indirect tax depends upon consumer.

The number of registrants is increasing but the tax collection has not been satisfactory. As already stated public awareness is very low. The businessmen are not used to issuing bills and the consumers to receiving them. Furthermore, undervaluation and smuggling of goods are mostly found. The problem seems to be aggravated by the government's increasing the VAT rate to 13% which immensely discourages the customer in demanding bills on their purchases.

The total revenue collected by the government through tax and non-tax revenue over the years under study indicates that it has been able to collect revenue through tax and non-tax significantly. The tax revenue is in increasing trend where as non-tax revenue is in fluctuating. This indicates that through tax revenue, government revenue is in increasing trend.

The government has failed to achieve the targeted VAT in different fiscal year. The target is achieved only in three years under the study in year 2004/2005, 2006/2007, 2007/2008 and 2009/2010 but the contribution of VAT in total revenue of the government is in increasing trend from year 2002/2003.

The government of Nepal collects VAT from different sectors like productions, imports, goods sales and distribution, services and contracts and other services and the collection of VAT is increased year by year. The contribution made by imports is significantly large in collecting VAT revenue. In year 2009/2010 imports contributes 62.89 percent of total VAT revenue collected. It is observed that collection from imports share about two-third and collection from domestic source occupies one third only in Nepalese VAT structure.

The contribution of VAT in GDP of the country is significantly low in year to year. The highest contribution on made by VAT was in year 2009/2010 resulting in 4.65 percent share in total GDP of the country.

The revenue collection from VAT is increasing year by year. There are still several issues which are to be taken into account for the effective implementation of VAT in Nepal. One of the key issues is administrative capability and situation. Another issue is Nepalese businessmen are generally found not issuing the VAT bill. Public are also not well educated in this matter.

Hence, VAT has some difficulties in the administrative aspect of it; it is the most advance and scientific system of tax. Transparency is the main feature of VAT that will help to control the tax evasion. For the successful implementation of VAT system, it needs well trained and dedicated personnel, proper account keeping, proper billing system and the registration is also an important factor.

5.3 Recommendations

After completing this study, the following suggestions are recommended for the better administration and implementation of VAT system in Nepal.

1. VAT is one of the major contributors in the revenue collection of the government; it should be extended to through retail level as a bulk of tax performance to generate more revenue.

2. Existing threshold and tax refund is two possible gates for tax evasion. Continuous increase of the credit refund is definitely not a good sign. Higher credit return than the debit return is considered something not good for the VAT system so tax exemptions should be minimize to discourage credit returns

3. The tax administration should be very watchful to prevent any kind of malpractice, fraud and tax evasion and as well as the Tax officials should effectively be monitored in order to achieve the targeted VAT revenue in every fiscal year.

4. VAT related information should be provided to the concern parties by publishing journals and magazines from time to time. This information should be reached to concern parties.

5. Computer system and networking program through online service must be made updated and easy accessible so as to make the work simple and easy.

6. On various issues, such as the effect of VAT on price, economic growth, investment and measures for solving VAT problems research and investigation should be conducted by the expert group. VAT law needs to be reviewed on the basis of experience gained so far.

7. The legal requirements are not sufficient to meet all the provisions. There is need of amendment on the VAT Act and VAT Rules.

8. VAT collection on import is remarkably higher than domestic production. Government should take effective steps to encourage domestic production to collect more revenue.

9. The contribution of VAT on GDP is relatively low so VAT should also be levied on agriculture sector with sufficient exception for increasing VAT/GDP ratio.

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